MISSION

PROVIDE QUALITY SERVICE WITH DIGNITY, INTEGRITY AND RESPECT.

VISION

- TO ENSURE BASIC HEALTH, SAFETY AND PROTECTION OF PEOPLE.
- TO FACILITATE COMMERCE AND TRADE IN ORDER TO PROMOTE A HIGH QUALITY OF LIFE.
- TO PROMPTLY RESOLVE ISSUES IN AN HONEST AND CONSISTENT MANNER.
- TO PROVIDE USEFUL AND EFFECTIVE SERVICE UTILIZING BOTH PUBLIC AND PRIVATE MEANS.

VALUES

- FISCAL RESPONSIBILITY

  WE RESPECT OUR OBLIGATION TO THE TAXPAYER AND SHALL ACT IN A FISCALLY RESPONSIBLE MANNER.

- PRIDE IN SERVICE

  WE TAKE PRIDE IN OUR MISSION, OUR ORGANIZATION, AND THE UNIQUE ABILITIES OF EACH INDIVIDUAL EMPLOYEE TO DELIVER QUALITY SERVICE.

- INTEGRITY/ETHICS

  WE SHALL CONDUCT OUR BUSINESS THROUGH HONEST AND DIRECT COMMUNICATION WITH INTEGRITY, TRUST, AND A HIGH STANDARD OF ETHICS AND RESPECT.

- DECISIVE LEADERSHIP & ACCOUNTABILITY

  WE VALUE INITIATIVE AND LEADERSHIP, AND ARE ACCOUNTABLE FOR OUR PERFORMANCE.

- INNOVATION

  WE ENCOURAGE INNOVATIVE PROGRAMS TO INCREASE EFFICIENCY AND STREAMLINE OPERATIONS.

- WORKING TOGETHER

  WE ENCOURAGE PARTNERSHIPS AND COOPERATIVE AGREEMENTS WHICH ENHANCE OUR ABILITY TO ACCOMPLISH OUR MISSION.

BUTTE COUNTY OFFICERS
Fiscal Year begins July 1, 2019

BOARD OF SUPERVISORS

District 1	Bill Connelly	538-6834
District 2	Debra Lucero	891-7535
District 3	Tami Ritter	891-2800
District 4	Steve Lambert, Chair*	538-2516
District 5	Doug Teeter, Vice Chair*	762-2186

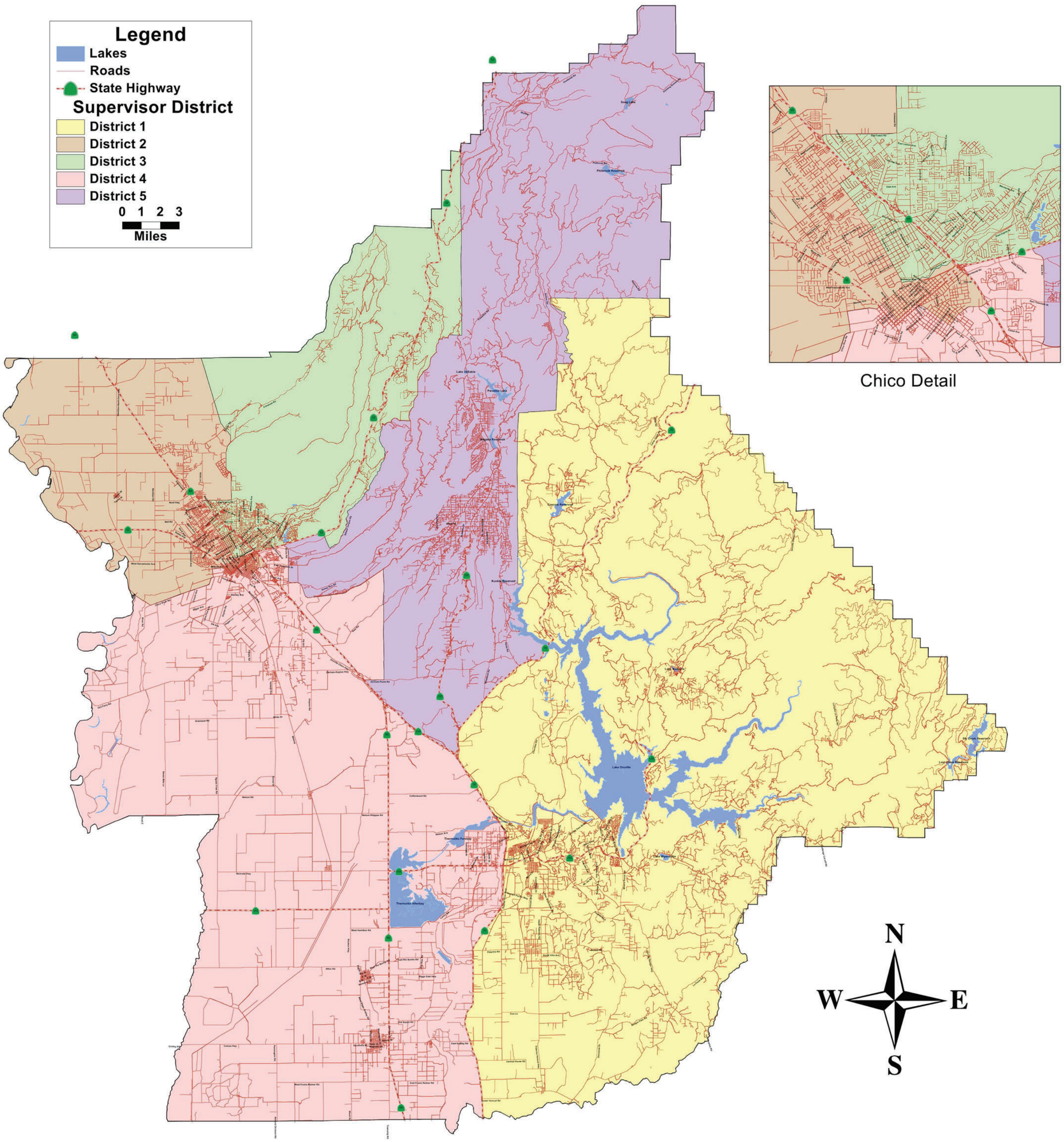
**Chosen annually at the first meeting in January.*

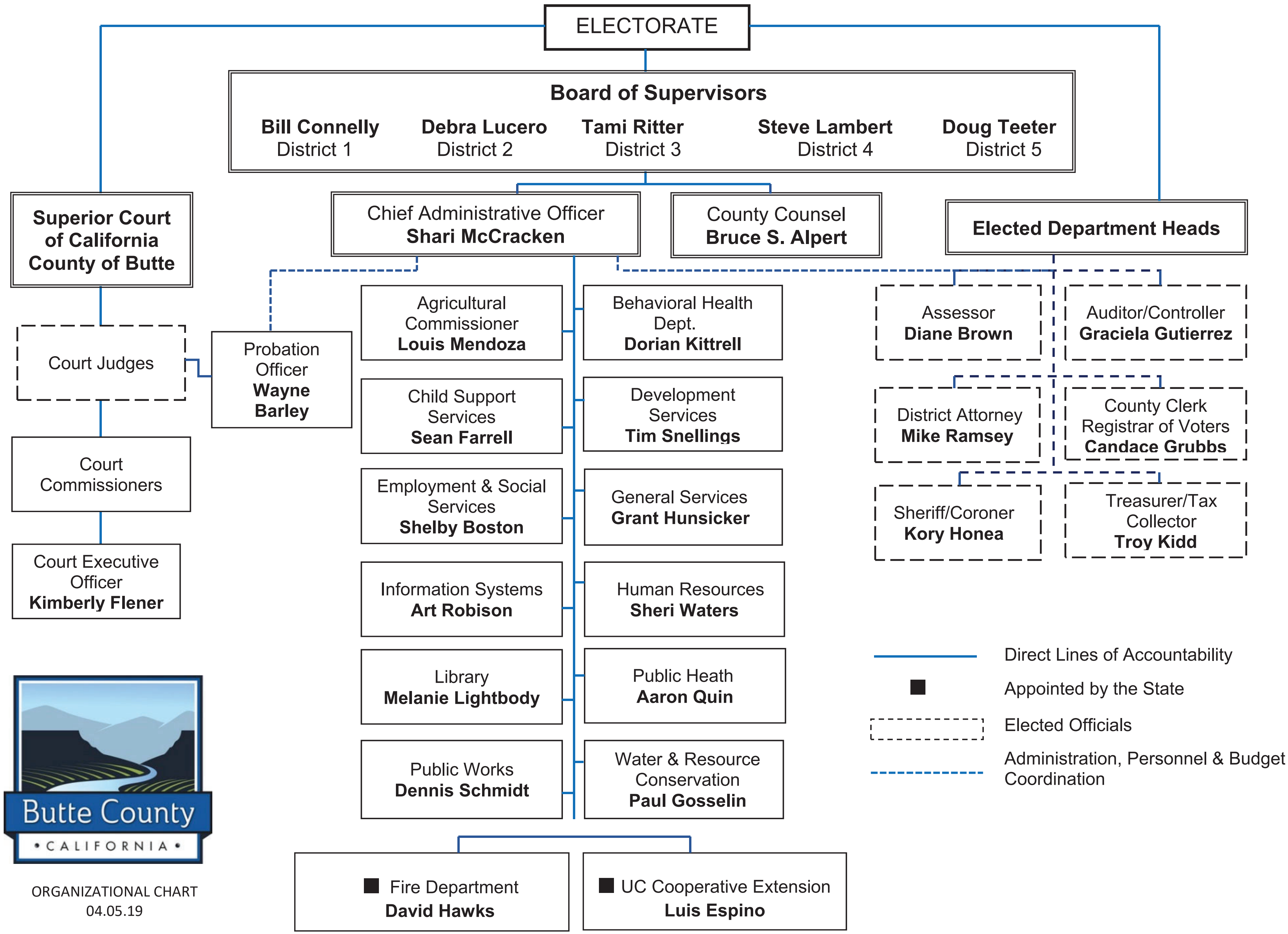
DEPARTMENT HEADS

Agricultural Commissioner	Louis Mendoza	552-4100
Assessor	Diane Brown	552-3757
Auditor-Controller	Graciela Gutierrez	552-3599
Behavioral Health Director	Dorian Kittrell	879-3819
Chief Administrative Officer	Shari McCracken	552-3305
Child Support Services Director	Sean Farrell	552-4200
Clerk-Recorder/Registrar of Voters	Candace Grubbs	552-3455
County Counsel	Bruce S. Alpert	552-4070
Development Services Director	Tim Snellings	552-3642
District Attorney	Mike Ramsey	538-7411
Employment & Social Services Director	Shelby Boston	538-2070
Fire Chief	David Hawks	538-7111
General Services Director	Grant Hunsicker	552-3471
Interim Human Resources Director	Sheri Waters	552-3565
Information Systems Director	Art Robison	552-3200
Library Director	Melanie Lightbody	538-7240
Chief Probation Officer	Wayne Barley	538-7664
Interim Public Health Director	Aaron Quin	552-4012
Public Works Director	Dennis Schmidt	538-7681
Sheriff-Coroner	Kory Honea	538-7291
Treasurer-Tax Collector	Troy Kidd	552-3745
UC Cooperative Extension	Luis Espino	538-7201
Water & Resource Conservation Director	Paul Gosselin	552-3590

Butte County Supervisorial Districts

Adopted: July 26, 2011
Ordinance No. 4031





ORGANIZATIONAL CHART
04.05.19

This Guide is provided to explain in everyday terms how Butte County government plans and accounts for its finances in order to meet its obligation to be stewards of 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 such a wide variety of social, health, environmental, public safety, and other services it is a challenge to keep 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 for the coming fiscal year. The budget document presents in detail, the financial plan for the County, including its sources of revenue (resources) and the allocation of these resources to the programs of the County. The Board of Supervisors adopts the budget by passing a Resolution authorizing 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 incur obligations for specific purposes. An appropriation is time limited and must be expended before the end of the fiscal year.

WHAT ARE REVENUES?

Revenues consist of income received through taxes, licenses and permits, grants from other governments, charges for services, fines and forfeits, and other miscellaneous sources. Revenues are one component of available financial resources which are used to fund appropriations.

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 or other improvements. Debt expenditures repay borrowed money and interest on that borrowed money.

WHAT IS A FUND?

For accounting purposes the County is organized into many separate fiscal entities known as funds. Each fund is a separate division for accounting and budgeting purposes. The fund accounting structure 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 may be thought of as a separate checking account to be used for a specific purpose. All funds of the County fall into one of six major categories. The following is a brief description of the 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, fire protection, library services and administration. The General Fund is basically a "catch-all" to account for County operations that do not have to be recorded in a different fund.

Special Revenue Funds: Special revenue funds are used to account for revenues that are used for specific purposes. An example is the Road Fund where we record the transportation allocations and taxes received from the State which must be used for roads and bridges.

Capital Projects Funds: The Capital Projects Fund is used to account for the acquisition and/or construction of major capital facilities.

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

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 charges for services. Enterprise funds are used to account for all costs related to the Neal Road Recycling and Waste Facility.

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.

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 prescribed by the State or United States government, audits are conducted to ensure that these accounting rules are followed.

Reason 3: Whenever a local government approaches the financial market to borrow money, the local government must provide financial statements, prepared in accordance with national accounting standards, which accurately portray 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 will be able to repay the debt.

Reason 4: The County, like all other local governments nationwide, uses fund accounting because this system of accounting is the standard prescribed 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 between funds. An example of operating transfers is the transfer of funds from the General Fund to the Public Health Fund for the County's mandated contribution to public health programs. Another example is the transfer of funds from the General Fund and/or other operating funds to the Capital Projects Fund to account for Capital Projects.

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 that 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 upcoming fiscal year.

A BALANCED BUDGET

By law, each separate fund must have a balanced budget. This means that revenues, plus fund balance carryovers, must equal the appropriations and increases in 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 include the General Fund, Welfare Fund, Public Health Fund, Behavioral Health Fund, Child Support Services Fund, and Road Fund.

The expenditure budget for all funds is itemized into categories, often called line items but sometimes referred to as objects, subobjects, 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 object level of detail is used. The various line items are grouped into several object categories. These are:

Salaries and Benefits: This is the amount paid for 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 goods and services other than those provided by County personnel. This includes articles and commodities purchased for consumption, such as office and operating supplies, as well as professional and other services such as insurance and utilities.

Other Charges: This category is used to account for a variety of costs including support and care of individuals in the County's care, such as mental health institutionalization; debt service payments; and interfund expenditures, such as services provided between departments in different funds.

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

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

Special Items: This category includes significant transactions that are unusual and/or infrequent in occurrence as well as intrafund transfers used to record charges for services provided by one department to other departments within the same fund.

Adopted Budget The spending plan approved by resolution of the Board of Supervisors after the required public hearing and deliberations on the Recommended Budget. The Adopted Budget must be balanced with Total Financing Sources equal to Total Financing Uses.

Account A line item classification of expenditure or revenue. Example: "Office Expense" is an account in the category of "Services & Supplies."

Appropriation 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 June 30th, the end of the fiscal year.

Assessed Valuation A value set upon real estate or other property by a government as a basis for levying taxes.

Allocated Positions Staff (or Employee) Positions approved by Board of Supervisors and provided for in the County Salary Ordinance. Represents the maximum number of permanent positions that may be filled at any time.

Available Fund Balance The amount of Fund Balance available for financing expenditures and other funding requirements in the current period after deducting obligated Fund Balance.

Budget The planning and controlling document for financial operation with appropriations and revenues for a given period of time, usually one year.

Budget Unit The midlevel classification of appropriations that includes one or more objects of expenditure to fund a department, division or set of goal-related functions. A department or agency may have one or more budget units assigned to it. (see budget hierarchy diagram).

Budgeted Positions The number of full-time equivalent positions to be funded in the Budget (12 months, 260 days and 2080 hours all equal 1.00 budgeted position).

Capital Assets A tangible or intangible asset of significant value acquired for use in operations that will benefit more than a single fiscal period. Capital Assets must both have a long-term character such as land, buildings, equipment and vehicles and exceed the minimum capitalization threshold as established by County policy. All land and vehicles are capitalized along with land improvements, building and building improvements and infrastructure in excess of $125,000 and machinery, equipment and computer software in excess of $25,000.

Capital Projects	A project that will acquire, construct, or improve infrastructure or a facility, with a project cost exceeding $125,000. Project costs can include the cost of land, infrastructure, rights of way, development rights, engineering, architectural planning, and contract services necessary to complete the project.
Contingency	An amount appropriated for unforeseen expenditure requirements. Transfers from this budget unit to any other budget unit for specific use require a four-fifths vote of the Board of Supervisors.
Division	A level in the budget hierarchy which provides a mechanism to account for program costs included in a single budget unit in more detail.
County Service Area (CSA)	A special district created to provide financing for the provision of a specific service or service (such as street lighting and drainage) in a defined area.
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	A program or service where the Board of Supervisors may exercise its freedom of choice with respect to the level of funding or the type of service or program provided.
Encumbrance	Funds obligated but not yet spent for a specific purpose, usually backed by a purchase order, contract, or other commitment, which are chargeable to an appropriation. Encumbrances are used as a management tool to ensure that expenditures do not exceed the amount appropriated and expire at year end.
Enterprise Fund	A fund type used to account for the expenditures and means of financing of an activity which is predominantly self-supported by user charges. Example: Neal Road Recycling and Waste Facility.
Expenditure	The use of funds for a specific purpose.
Extra Help	Temporary employees of the County who are not included in the salary ordinance and typically do not receive benefits. Extra Help workers assist with seasonal, peak, or emergency workloads of limited duration. Extra help can be used where no authorized position exists, but where funding exists to cover the cost.
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 protection, conservation, propagation, and preservation activities and programs and are overseen by the Fish and Game Commission.
Fixed Asset	See Capital Assets.
Full-time Equivalent (FTE)	One full-time equivalent (FTE) is equal to a full time position (12 months, 260 days and 2080 hours all equal 1.00 FTE). Two half-time positions (each 20 hours per week) is equivalent to 1.0 FTE.
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	A separate fiscal and accounting entity within the County, and the highest level classification of appropriations. Each fund is a separate unit 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. Funds may contain one or more budget units.
Fund Balance	The difference between assets and liabilities reported in a governmental fund.
Fund Type	Categories into which all funds used in a governmental accounting are classified. Fund types are: Governmental Fund types consisting of a General Fund, Special Revenue Funds, Capital Project Funds and Debt Service Funds; Proprietary Fund types consisting of Enterprise Funds and Internal Services Funds; Fiduciary Funds consisting of Trust and Agency Funds.
General Fund	The main operating fund providing general County services.
General Purpose Revenue	Revenue received by the County that does not have a restriction as to what programs and services it must be used for. The Board of Supervisors may use General Purpose Revenue for any governmental purpose that it chooses once state mandated County match requirements are met. The largest source of General Purpose Revenue is property tax.
General Reserve	The portion of the General Fund's net assets not available for appropriation during the fiscal year, as the funds are held for future years in anticipation of limited duration budget shortfalls, emergencies, and to ensure sufficient working capital for cash flow.

Grant	A contribution from one governmental unit to another usually made for a specific purpose and time period.
Internal Service Fund (ISF)	A fund used to account for specified services provided to County departments on a cost-reimbursement 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 expenditure reduction.
Intrafund Transfer	A transfer made between budget units within the same fund for services rendered and received. The service rendering budget unit shows these transfers as an expenditure reduction and not as a revenue.
Imprest Cash	A sum of money set aside for making change or paying small obligations for which the issuance of a voucher or warrant would be too expensive and time consuming.
Obligated Fund Balance	All amounts that are unavailable for financing budgetary requirements in the budget year. This includes nonspendable, restricted, committed, and assigned fund balances.
Maintenance of Effort	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. Typically, a Maintenance of Effort requirement means that the County must commit a certain amount of its own discretionary funds toward a certain program or purpose in order to continue receiving State or federal funds for that same purpose.
Object of Expenditure	Unique identification number and title for an expenditure category or means of financing. Example: Salaries & Employee Benefits.
Mandated Program or Service	A program or service required by federal or state government that the County is legally obligated to carry out.
Other Charges	An object of expenditure used to account for a variety of costs including support and care of individuals in the County's care, such as mental health institutionalization; debt payments; and interfund expenditures, such as agreements for services between departments in different funds.

Other Financing Uses	An object of expenditure for Transfers-Out or Operating Transfers.
Purchase Order	An authorization for the purchase of specific goods or services.
Realignment Revenue	Revenue collected by the state and allocated to counties for realigned programs. The 1991 realignment legislation transferred mental health, public health and social services programs from the state to county control, altered program cost-sharing ratios, and provided counties with dedicated tax revenues from the sales tax and vehicle license fee. The 2011 realignment legislation transferred criminal justice, including oversight of state prisoners, as well as additional mental health and social services program from the state to county control.
Real Property	Land and the structures affixed to it.
Recommended Budget	The budget recommended to the Board of Supervisors by the Chief Administrative Officer for the upcoming fiscal year. The Recommended Budget also documents budget requests made by each County department.
Restricted Cash	Funds held in reserve until the legal or contractual requirement for use of the funds has been met.
Revenue	Funds received to finance governmental services from various sources and treated as income to the County. Examples: property taxes and sales taxes.
Salaries and Employee Benefits	An object of expenditure used to account for the total cost of compensating county employees for their labor. Included in this object are regular salaries, extra help salaries, overtime, and standby pay, and the county's share of health, dental, retirement, social security and workers' compensation costs.
Secured Taxes	Taxes levied on real property in the County, which are "secured" by property liens.
Services & Supplies	An object of expenditure which provides for the operating expenses of County departments other than salaries and benefits, capital 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.

Special Revenue Fund	A fund type used to account for the expenditures and means of financing of an activity which is restricted to a specific purpose. Example: Public Health Fund.
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.
Transfers-Out	Non-recurring transfers of equity from one fund to another. Also called Operating Transfers.
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.
Unsecured Tax	A tax on properties such as office furniture, equipment, and boats that are not physically attached to real property.

FINANCIAL POLICIES

The Board of Supervisors has adopted a number of policies, strategies and guidelines related to financial matters that are integral to the County's Budget and the financial management of the County. The policies address issues ranging from Board of Supervisors approval for increases to appropriation in Governmental funds to Debt Management to the County's recently adopted Pension Strategy, which addresses anticipated increases in Pension costs. These policies are revised periodically to reflect changing requirements and County needs. Included in the Recommended Budget for reference are as follows:

1. Capital Asset Policy
2. County Budget Policy
3. Debt Management Guidelines and Procedures
4. Fund Balances Policy
5. General Fund Reserve Policy
6. Pension Obligation Bond Payment Strategy Summary
7. Pension Strategy
8. Teeter Plan Policy

County of Butte

Capital Asset Policy

COUNTY OF BUTTE
CAPITAL ASSET POLICY
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DEFINITIONS **11**

PURPOSE

The purpose of this policy is to provide a uniform criteria for identifying and properly classifying County expenditures for capitalization. This policy also provides guidelines for determining the economic useful lives of capital assets (also known as fixed assets) and includes thresholds and guidance for:

- Purchases of capital assets
- Capitalization of construction projects
- Use of Equipment Replacement funds
- Capital Projects - Funds
- Control of property that falls below the capitalization threshold
- Lease Purchase of capital assets

Capital asset tracking is required for the following reasons:

- To safeguard a sizeable investment.
- To fix responsibility for the custody of equipment.
- To assist in the formulation of acquisition and retirement policies through accumulation of data regarding prices, sources of supply and useful life.
- To provide data for financial reporting.
- To account for reimbursement of depreciation under grants and proprietary service programs.
- To provide information for insurance purposes.

SCOPE

This policy sets forth the parameters, on a county-wide basis, to establish and maintain a systematic method for capturing capital asset data for internal and external use. Governmental Accounting Standards Board Statement 34 (GASB 34) requires that all capital assets (meeting threshold parameters in this policy) be reported in the government-wide balance sheet of the Comprehensive Annual Financial Report (CAFR). This policy provides authority for all elements of capital asset management. This policy revises and supersedes the Capital Asset and Property Control Policy approved by the Board of Supervisors on 4/10/12.

POLICY

Purchase, Valuation, Disposition

Capital Asset purchases shall be approved by the Board of Supervisors. Source funds may be federal, State, local, other, donated, seized or a combination of these sources. Butte County may use specialized funds and/or programs to properly account for capital assets.

Purchase

Equipment Replacement Funds

The County utilizes distinct Equipment Replacement Funds (ERF) for the purpose of setting aside funds to replace certain capital assets. When an asset is part of an ERF, the department to which the asset is assigned is charged an annual equipment use allowance. Revenue from the equipment use allowance charges are received in the ERF and used as replacement funds for future purchases. The estimated useful life of these capital assets are generally based on the number of years it takes to replenish the fund for that asset. The Chief Administrative Officer or designee shall manage these special funds.

Capital Projects Fund

The Capital Projects Fund was established to consolidate certain capital projects of the County into a single fund. Separating major capital acquisition and construction from ongoing operating activities helps avoid the distortion in financial trend information that can arise when capital and operating activities are mixed. Capital Project costs include:

- Direct Labor
- Materials
- Equipment usage
- Overhead

Generally, if above the established threshold, all capital projects (not including Road, Bridge and Enterprise Fund projects) will be in the Capital Projects Fund unless otherwise directed by the Board of Supervisors.

Capital Improvement Program

The Capital Improvement Program (CIP) is a budgeting plan for Butte County's service and transportation infrastructure needs over the next ten years. This Program is not a comprehensive list of all the County's infrastructure needs, but rather a spending plan that is based on current revenue projections. Projects identified in the CIP have a cost of at least $125,000, unless otherwise directed by the Board of Supervisors, are nonrecurring, have a multi-year useful life, and result in capital assets. The CIP can be located on the Butte County website www.buttecounty.net →Departments →Administration →Documents →Financial →Capital Improvement Projects.

Lease Purchase Agreement

A Lease Purchase Agreement is a contractual agreement that extends beyond the current accounting period and results in the purchase of an asset or assets. In substance these agreements are purchases, and are treated as long-term liabilities and the assets are capitalized. For additional information regarding Lease Purchase Agreements, refer to the Debt Management Policy located on the Butte County Website under Administration, Documents.

Valuation

Capital assets should be recorded at historical cost. Historical cost is the value of the asset on the date acquired by the County. The cost of a capital asset should include capitalized interest or ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition. Non-Federal thresholds for capitalization are detailed by classification in category section of this policy.

Donated Capital Assets

Any and all capital assets donated to the County must be approved by the Board of Supervisors as outlined in Butte County's Donation Policy, Resolution #12-001. Donated capital assets shall be recorded at their fair market value at the date of acceptance by the Board of Supervisors.

Donated vehicles must be inspected by Public Works Fleet Services prior to being submitted to the Board of Supervisors for approval regardless of if they are used or new.

Seized Capital Assets

All awarded assets obtained through the seizure process desired to be placed into County service must be accepted by the Board of Supervisor. Seized capital assets shall be recorded at their fair market value at the date of acceptance by the Board of Supervisors.

Awarded vehicles must be inspected by Public Works Fleet Services prior to being submitted to Board of Supervisor for approval.

Disposition

The Auditor Controller's Office in coordination with General Services will maintain procedures for reassignment of capital assets from one department to another, retirements and disposals of capital assets.

Capital Asset Transfers

Capital assets may be transferred between county departments using the Capital Asset Transfer form.

Disposals and Retirements

General Services is responsible for the disposal of all capital assets (donation, sale or scrapping of an asset, damaged beyond repair and deemed a total loss, trade-ins), trade-ins and retirements (removing a capital asset indefinitely from active use), including land, buildings, machinery and equipment, vehicles and general infrastructure.

Proceeds from the sale of capital assets are deposited back to the Fund from which they were purchased or upon special instructions provided to the Auditor-Controller's Office with direction to deposit elsewhere.

Lost or Stolen

Upon incurring the loss of an asset, a relief of accountability memo is necessary by the Auditor-Controller's Office prior to submitting it to Board of Supervisors for approval.

Category, Classifications, Useful Life, Depreciation

Assets of significant value that have a useful life that extends beyond the current year are broadly classified as land, land improvements, buildings (structures) and improvements, infrastructure, equipment, vehicles, and intangible assets. The two criteria used in determining when an item should be capitalized instead of expensed are:

1. The asset has a utility or expected useful life that benefits more than a single fiscal year.

2. The asset must meet or exceed the minimum capitalization threshold established for each category of capital asset.

Federal Awards

All capital asset categories purchased with federal funds or by Support Service Departments shall be capitalized at the minimum threshold of $5,000 as required by federal law and by the cost plan which allocates costs to federal programs.

All major maintenance paid for with federal funds or by Support Service Departments that substantially increases the capacity, value, operating efficiency, or useful life shall be capitalized in compliance with 2 CFR Part 225 – Cost Principles for State and Local (OMB A-87), Appendix A, Paragraphs C, 1.b and 3.a.

Land

Type	Minimum Capitalization Threshold	Estimated Life
Land	ALL	Non-Depreciable

Land, including that associated with infrastructure shall be reported at cost, estimated cost, or estimated fair market value at the date of acquisition. Land is not depreciable. The cost of land includes all expenditures in connection with its acquisition, such as:

- Purchase Price
- Appraisal and negotiation fees
- Title search fees
- Surveying fees
- Relocation costs
- Condemnation costs
- Clearing land for use
- Cost of obtaining consents
- Demolishing and/or removing structures
- Filing costs

Receipts from the sales of salvage shall be credited against the land cost.

Structures and Improvements

Land Improvements

Land Improvements are improvements that add value to land, but do not have an indefinite useful life. Examples of which are: fences, retaining walls, storage tanks, reservoirs, parking areas, sidewalks, and most landscaping. As such, these costs are depreciated over the period of the land improvements' life.

Type	Minimum Capitalization Threshold	Estimated Life
Land Improvements	$ 125,000	20 years

Buildings (Structures) and Improvements

Buildings (structures) and improvements are defined as physical property of a permanent nature, examples of which are buildings, structural attachments, and improvements that add value to an existing capital asset either by lengthening its estimated useful life or increasing its service capacity. These buildings (structures) and improvements must also meet the monetary criteria enumerated below.

Type	Minimum Capitalization Threshold	Estimated Life
Buildings (Structures) and Improvements	$ 125,000	30 to 50 years

The cost of buildings and improvements include all expenditures in connection with their acquisition, such as:

- Purchase price of construction cost
- Fixtures attached to the structure *
- Architects' fees
- Accident or injury costs
- Payment of damages
- Insurance during construction
- Cost of permits and licenses
- Net interest cost during construction

** Fixtures are permanent structural attachments that are not intended to be removed, and that function as part of the structure, such as boilers, lighting fixtures and plumbing.*

The cost should be reduced for:

- Sale of salvage from materials charged against the construction
- Discounts, allowances and rebates secured
- Amounts recovered through surrender of liability and casualty insurance

Leasehold Improvements

Leasehold improvements are improvements made to a leased property that will revert to the lessor (landlord, property owner) at the expiration of the lease. Leasehold improvements include construction of new buildings or improvements made to existing structures by the lessee (tenant), who has the right to use these leasehold improvements over the term of the lease. Moveable equipment and/or office furniture that is not attached to the leased property is not considered a leasehold improvement. For leasehold improvements, the useful life is the estimated service life of the leasehold improvements or the remaining term of the lease, whichever is shorter.

Type	Minimum Capitalization Threshold	Estimated Life
Leasehold Improvements	$ 125,000	Estimated service life or the end of term of the lease, whichever is shorter

Infrastructure

Infrastructure are long-lived assets that normally are stationary in nature and can be preserved for a significantly greater number of years than other capital assets. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure. Other items that are not an integral part of the infrastructure, such as parking meters and portable traffic signals, are considered equipment.

Type	Minimum Capitalization Threshold	Estimated Life
Infrastructure	$125,000	30 to 50 years

The cost of infrastructure includes all costs in connection with their acquisition, such as:

- Construction or purchase costs

- Engineering, surveyor, and architect fees
- Insurance costs related to construction
- Permit or license fees
- Staff time

Types of Infrastructure include:

- Roads
- Gas distribution piping
- Fire hydrants
- Streets
- Irrigation systems
- Highways
- Bridges
- Drainage Systems
- Water and Sewer Systems
- Dams
- Lighting Systems
- Tunnels
- Sidewalks
- Culverts
- Dams/dikes
- Airport runways
- Guard Rails
- Piers
- Storm piping
- Electrical Systems
- Telecommunications Structures
- Curbs

Equipment

Equipment is moveable personal property of a relatively permanent nature (useful life of longer than one year) and of significant value, such as furniture, machinery and tools.

Type	Minimum Capitalization Threshold	Estimated Life
Equipment	$ 25,000	5 to 20 years

Items of a like nature that individually fall below the equipment threshold are not capitalized. For example, when a purchase of like items is made, and the cost of each individual item is below the capitalization threshold, the total purchase cost shall **not** be capitalized. For example, if 20 modular furniture units are purchased for a total of $80,000 and each unit is valued at $4,000, the individual unit is below the capitalization threshold, thus the $80,000 would not be capitalized. Or, for example, 50 personal computers (Central Processing Unit, screen, keyboard and mouse) are purchased for a total of $100,000. If each personal computer unit is valued at $2,000, the total cost of $100,000 is **not** capitalized, again, because each individual unit is below the capitalization threshold.
The cost of equipment includes all expenditures in connection with their acquisition, such as:

- Sales, Use and/or Transportation Tax
- Freight or Delivery Charges
- Installation Costs
- Site Preparation Costs
- Professional Fees

Training and maintenance support agreements shall not be included in the capitalization of an asset.

Vehicles

Vehicles are defined as a mode of transportation that can transport one or more individuals. In addition to vehicles running on wheels, other examples include aircraft (including helicopters), ski mobiles, and pieces of equipment that run on caterpillar tracks. A piece of equipment is not considered a vehicle if its purpose is not to transport at least one individual. For example, a pallet jack is a piece of equipment designed to move pallets from one location to another. Although it is "guided" by an individual, it is not designed to "transport" an individual, thus is considered equipment rather than a vehicle.

Type	Minimum Capitalization Threshold	Estimated Life
Vehicles	ALL	5 to 15 years

All County vehicles are to be capitalized. Certain items that are considered necessary to place the vehicle in service are considered part of the cost and capitalized as such. Costs subsequent to acquisition should be capitalized only if incurred after acquisition of the related asset has come to be considered probable (likely to occur). Examples of items added to a vehicle that shall be added to the cost and capitalized if directly identifiable with a specific asset as follows (these examples shall not be considered a complete list):

- Freight, Transportation, Delivery Charges
- DMV Fees, Taxes, License (year one only for DMV fees)
- Truck bed cabinets for secured storage
- Lights, sirens
- Radios installed in vehicle
- Cages
- Map Light
- Gun Mount
- Labor costs associated with equipment installation
- Decals (visible County marking and vehicle number)

Prior to submitting retirement of vehicle to the Board of Supervisors, Public Works Fleet Services shall perform a thorough inspection as outlined in the Butte County Vehicle Policy.

Construction In Progress

This major class of capital assets is used for costs incurred to construct or develop a tangible or intangible capital asset before it is substantially ready to be placed into service. Once it’s placed into service it is reclassified into the appropriate major class.

Other

Intangible Capital Assets

Intangible capital assets are defined as those assets that lack physical substance, are nonfinancial in nature and are useful beyond a single reporting period. Intangible capital assets include easements, land use rights (such as the right to use a water source), computer software, patents, and trademarks. Intangible assets may be externally generated (purchased or received from a third party) or internally generated such as computer software.

Type	Minimum Capitalization Threshold	Estimated Life
Intangible Assets	Refer to the Asset Type	5 to 15 years or indefinite
Computer Software	$ 25,000	5 years

The cost or value of intangible assets includes:

- Purchase price
- Labor costs
- Appraisal and negotiation fees
- Development costs
- Installation costs
- First year of maintenance

Externally acquired intangible assets are reported when purchased or received. Internally generated intangible assets must meet three criteria to begin to be reported as a capital asset:

- Objective - the County's specific objective and service capacity has been determined.
- Feasibility - the potential of completing the asset for its intended use has been demonstrated.
- Intention - the County's intention to complete the project has been demonstrated.

Responsibility for Capital Asset

Purchases of capital assets are the responsibility of the department making the purchase in coordination with General Services. Departments shall ensure these assets follow any and all guidelines as set forth in the restrictive documentation established by grant criteria or fund source.

Departments are responsible for ensuring that their capital assets are recorded properly in the Capital Asset System. The make, model, year, description, manufacturer's serial number, acquisition date, acquisition amount, funding source (Federal, State, Local, Donated, Seized, Other, and percentage) of each capital asset shall be reported to the Auditor's Office.

The Auditor-Controller or designee shall ensure that the reporting for capital assets is being exercised on a regular and consistent basis. The Auditor-Controller or designee will further ensure that capital asset reports and work papers will be updated annually to reflect improvements, additions, transfers and retirements. This information will be used for financial reporting purposes and for updating the annual accumulated depreciation calculations and net book value amounts of county capital assets.

If situations arise whereby a determination is necessary regarding any capitalization issue that is not clearly spelled out in the Policy, discussion shall occur between the Auditor-Controller or designee and respective Department(s). Ultimately, the Auditor-Controller or designee will make the final decision as to the outcome.

Annually, per Government Code Section 24051, a detail of all County capital asset property shall be submitted to the Auditor-Controller by each county officer in charge of a department. The Auditor-Controller or designee shall compile the detail of County property and send this information to each department head for verification. Necessary changes shall be submitted by the department head or designee to the Auditor-Controller or designee to make adjustments in the County's Capital Asset tracking system.

Day-to-day stewardship of assets are the express responsibility of the department head to which the assets are assigned.

Costs Subsequent to Acquisition

Cost should only be capitalized only if it is directly identifiable with a specific asset. Expenditures incurred after the original acquisition are defined and recorded as follows:

Additions - new and separate units, or extensions of existing units, are considered capital assets if at the time of the original asset purchase, the addition is known to likely occur. The cost of the addition shall meet this policy's valuations in order to be capitalized. Additions and improvements to infrastructure assets should be capitalized.

It is the responsibility of the Department purchasing the assets to identify and associate each piece of equipment/improvement to the appropriate capital asset. Example: A department purchasing multiple vehicles with multiple enhancements such as lights, sirens, decals, map lights, etc. shall identify charges associated with **each** vehicle being placed into service.

Alterations - changes in the physical structure or arrangement of capital assets, the cost of which does not qualify as an increase in capital assets shall not be capitalized.

Capitalized expenditures - expenditures that materially add to the value of the capital asset or appreciably extend its life, or are necessary to place the asset into service for its intended use. The cost of the capitalized expenditure should be added to the book value of the asset where the original cost of a component being improved can be specifically identified.

Maintenance - expenditures that neither materially add to the value of the capital asset nor appreciably prolong its life, but merely keep it in an ordinary efficient operating condition. Maintenance costs are not capitalized. Exception below for Employment and Social Services which requires costs to be charged to Federal programs in accordance with relative benefits received.

"The replacement of major building components must be treated as a capital improvement, recovering costs over the useful life. Costs charged to Federal grants are in accordance with the relative benefit received. It is not equitable to expense a major replacement in one fiscal year and allocate the costs only to the Federal, State and county programs that the county happens to be performing in the year of expenditure."
(SCO, Maintenance vs. Capital Improvement, 02.05.14, www.sco.ca.gov/ard_county_cost_allocation.html)

County Property below Capitalization Threshold

A department head may elect to control and inventory property below the capitalization threshold based on the needs or requirements of the department and such election may be different from department to department. Examples of items that a department head may elect to control are: weapons, radios, personal computers, laptop computers, printers, fax machines and small power tools. The cost of the property, cost to control and inventory, and materiality may be considered by the Department Head when a decision is made as to what items, if any, shall be controlled. Stewardship of these minor items that are sensitive or at high risk of theft is the express responsibility of the department head.

Personal property below the capitalization threshold which the department head believes warrants control shall be inventoried at the department level and an appropriate list shall be maintained. Data elements that should be included include asset description, location, make, model, serial number and other information that assists control.

The Auditor-Controller or designee shall have the right to request copies of the inventory and/or updated inventory of controlled items from the responsible department head.

DEFINITIONS

Accumulated Depreciation – a valuation to record the accumulation of periodic credits make to record the expiration of the estimated service life of a capital asset.

Capital Asset - tangible or intangible asset acquired for use in operations that will benefit more than a single fiscal period and meet or exceed the minimum capitalization threshold established for each category of capital asset.

Capitalized Interest - interest incurred to finance the construction of a long-term asset. The interest is added to the cost of the asset and is included in the depreciation of the asset. Capitalization of borrowing costs terminates once the construction of the asset is complete.

Capital Projects - New construction, expansion, renovation or replacement project for an existing facility or facilities. The project must have a total cost of at least $125,000 over the life of the project. Project costs may include the cost of land, infrastructure, right of ways, development rights, engineering, architectural planning and contract services needed to complete the project.

Depreciation Expense - recognition of the pro rata cost of a capital asset over several years as the value of the asset decreases. For example, a government buys a vehicle for $30,000 that will be depreciated over five years. Each year, one-fifth, or $6,000 will be depreciated. For Governmental Funds (General Fund, Special Revenue Funds, etc.), depreciation is not recorded in the general ledger. However, for financial statement purposes (Comprehensive Annual Financial Report), an adjustment is made to show the value of capital assets, depreciation expense and accumulated depreciation on what are commonly known as "Government-wide Financial Statements". In contrast, depreciation expense is recorded in the general ledger for Enterprise Funds and Proprietary Funds, and related assets and accumulated depreciation are shown in financial statements.

Net Book Value - the original cost of a capital asset, less any accumulated depreciation of the asset.

Straight-Line Depreciation Method - recognition of depreciation expense in equal increments over the life of a capital asset.

Support Service Departments – departments that support the County operations including General Services, Administration, Auditor-Controller, Human Resources, County Counsel, Information Systems

County of Butte

Budget Policy

Butte County Administration

County Budget Policy	Effective Date: 11/04/14	Version 1.0
Approval Date: 11/04/14	Last Revision Date:	

1. Purpose

   To meet the requirements of applicable State law and define the level of budgetary control and appropriation transfer authority for the County budget.

2. Policy Scope

   This policy applies to all governmental and proprietary funds of the County, dependent special districts and other agencies whose affairs and finances are under the supervision and control of the Board of Supervisors.

3. Policy

   A. *Compliance with State law and guidance*

      The County shall adhere to the provisions of the County Budget Act (Government Code §29000 – 29144 and §30200) and the County Budget Guide issued by the State Controller.

   B. *Responsibility for compiling the Recommended Budget*

      The Chief Administrative Officer shall be responsible for compiling and reviewing the departmental budget requests and preparing a recommended budget in compliance with the timelines set forth in the County Budget Act.

   C. *Revision of Appropriations – Governmental Funds*

      Transfers and revisions to the adopted budget for governmental funds may be made as follows:

      i. Transfers or revisions of appropriations between funds require approval of a super-majority of the Board of Supervisors, with at least four affirming.

      ii. Increasing total appropriations for a fund requires approval of a super-majority of the Board of Supervisors, with at least four affirming.

      iii. Transfers of appropriations between budget units within a fund require approval of a simple-majority of the Board of Supervisors, with at least three affirming.

      iv. Transfers of appropriations between objects of expenditure within a budget unit require approval of the Chief Administrative Officer or designee. For example, a transfer between the salaries and employee benefits object and services and supplies object requires approval of the Chief Administrative

Officer or designee. Transfers into or out of the Capital Assets object are excluded (see (vi.) below).

v. Transfers of appropriations between accounts within an object of expenditure in a single budget unit are not required. If desired by a Department these transfers may be approved by the Department Head.

vi. This policy does not affect the requirement for Board of Supervisors' approval to purchase capital assets.

a. In the event that the total cost of acquisition or development of a capital asset exceeds the amount originally approved by the Board of Supervisors, the appropriation may be increased by up to 10% of the amount approved for that asset by the Board of Supervisors if there is an equal decrease of appropriation within the same budget unit. Such a transfer requires approval from the Chief Administrative Officer or designee.

b. Transfers of appropriation from the capital asset object to other objects within the same budget unit require approval from the Chief Administrative Officer or designee.

c. Transfers of appropriation within the capital asset object are allowed to appropriately account for the capital items in the correct account. For example, staff time to put a capital asset into functional use should be included in the capital asset approval requested by the Department to the Board of Supervisors, but the account these costs are accounted for will be distinct from the original purchase.

d. All accounts within a budget unit in the Capital Project fund are capitalized and, as such, appropriation may be transferred between accounts within a budget unit in the Capital Project fund with only Department Head approval.

vii. Transfers of appropriations from contingencies require approval of a super-majority of the Board of Supervisors, with at least four affirming.

D. *Revision of Appropriations – Proprietary Funds*

Transfers and revisions of appropriations to proprietary funds (which include internal service funds and enterprise funds) are not required by statute, the State Controller or Governmental Accounting guidelines. Adopted budgets for proprietary funds are operational plans for entities that provide business-like services, or services shared throughout the government, rather than legal restrictions on spending. As such, Board of Supervisors' approval of adjustments to the operating plan is not required. However, Butte County department heads managing proprietary funds must manage costs and rates to ensure positive net assets for each proprietary fund. The Auditor-Controller shall prepare and report a statement of fund net assets for proprietary funds and a separate statement of fund net assets for internal service funds at the conclusion of each fiscal year.

E. *Responsibilities*
The Auditor-Controller shall audit appropriation transfers to ensure compliance with this policy and California law prior to posting transfers to the County General, Expenditure and Revenue Ledgers.

The Auditor-Controller, or the Chief Administrative Officer or designee, may perform periodic audits of County departments, to ensure compliance with this policy and any procedures generated to implement this policy.

County department heads and other officials shall not authorize any expenditure or other obligation unless the Board of Supervisors has appropriated funding in a budget unit for that purpose, except as otherwise provided by law.

County department heads are responsible for planning for and ensuring adequate levels of appropriations for cost plan and internal service charges based on estimates provided by Administration.

4. Definitions

Account: A line item classification of expenditure or revenue. Example: "Communications – Telephone Charges" is an account in the object of expenditure "Services and Supplies" and the subobject "Communications."

Appropriations: Authorizations for the County to make expenditures and to incur obligations during the current fiscal year.

Budget Unit: The midlevel classification of appropriations that includes one or more objects of expenditure to fund a department, division or set of goal-related functions. A department or agency may have one or more budget units assigned to it.

Capital Assets: An object of expenditure for land, structures and improvements, equipment, infrastructure and intangible assets.

Classification of expenditures: The grouping of expenditures within a major section, category, or classification, such as salaries and employee benefits, services and supplies, and capital assets. Also called object of expenditure.

Cost Center: See sub-budget unit.

Fund: The highest level classification of appropriations. Also, a separate fiscal and accounting entity within the County. Each fund is a separate division for accounting and budgeting purposes. Funds may contain one or more budget units.

Intrafund Transfers: Operational transfers of costs between budget units in the same governmental type fund. These transfers distribute costs to various departments for budgeting and informal operating statement purposes. These transfers are shown as Intrafund Transfers-In and/or Intrafund Transfers-Out under expenditures and other operating uses (an increase for the receiving budget unit and a decrease for the servicing unit).

Object of Expenditure: The lowest level classification of appropriations; a unique identification number and title for an expenditure category or means of financing. Examples: “Salaries and Employee Benefits” and “Services and Supplies.”

Other Charges: An object of expenditure for accounts that do not fit the definition of the other reporting objects. This includes debt payments and general assistance payments.

Other Financing Uses: An object of expenditure for Transfers-Out.

Salaries and Employee Benefits: An object of expenditure for salaries, wages and employee benefits of permanent and non-permanent positions.

Services and Supplies: An object of expenditure for accounts which provide for the operating expenses of County departments.

Subobject of expenditure: A further breakdown of classification of expenditures for detailed accounting within an object of expenditure. For example, office expense is a subobject within the services and supplies object.

Subbudget unit: A further breakdown of a budget unit for departmental management needs including divisions, programs and cost centers.

Transfers-Out: Non-recurring transfers of equity from one fund to another fund.

5. Procedure

    The Chief Administrative Officer, in cooperation with the Auditor-Controller, shall develop and periodically review procedures for implementing this policy and processing all appropriation transfers.

6. Background

    On March 9, 2004, the Butte County Board of Supervisors approved changes to the Budget Appropriation Transfer Policy that provided additional ability for County department heads to manage their budgets. Since that time, certain County practices have changed and the County Budget Act has been updated. This policy has been developed to account for these adjustments.

County of Butte

Debt Management Guidelines and Procedures

COUNTY OF BUTTE
DEBT MANAGEMENT GUIDELINES AND PROCEDURES
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OBJECTIVES

The objective of the Debt Management Guidelines and Procedures (DMGP) is to establish a method to address long-term capital improvement costs, short-term and long-term cash management strategies, the creation of guidelines and procedures that minimize Butte County's (County) debt service and issuance costs, provide for the highest practical credit rating, and maintain full and complete financial disclosure and reporting.

The County's overriding goal in incurring long-term financial obligations is to respond to the evolving needs of its citizens while maintaining its fiscal responsibilities. The DMGP documents the County's goals for the use of debt instruments and provides guidelines for the use of debt for financing County needs.

An important goal of the DMGP is to maximize the County's credit ratings when issued by the primary bond rating agencies Fitch, Moody's and Standard and Poor's. By maintaining the highest practicable credit rating, the County can issue its debt at lower interest rates than entities with lower ratings.

The County will also seek to minimize borrowing costs by taking advantage of favorable economic conditions. Timing debt issuance to accommodate market interest rates and investor sentiment is an important means of minimizing the cost of debt and the tax burden on the citizens of Butte County. To accomplish this, the County will seek input on market conditions from financial consultants who closely monitor the financial markets.

The debt policies and practices of the County are, in every case, subject to and limited by applicable provisions of California ("State") and federal law. The County will adhere to the following legal requirements for the issuance of public debt:

- State law which authorizes the issuance of the debt
- Federal and State tax laws which govern the eligibility of the debt for tax-exempt status
- Federal and State securities laws governing disclosure, sale and trading of the debt

The term “Bonds,” as used in the DMGP, refer to a class of debt instruments that may have fixed, variable or floating interest rates, with terms of repayment from 90 days to 30 or 40 years, and provide a means for local government to finance projects and activities.

DEBT ADVISORY COMMITTEE

All debt issuance proposals, once analyzed and approved for escalation, are to be communicated to and reviewed by the Debt Advisory Committee (Committee). Each debt issuance proposal will be evaluated by comparing it with competing proposals on the basis of the benefits derived, the prioritized needs of the County, and limits of debt that can be prudently and legally absorbed. If the debt issuance requires voter approval, that process begins after the Board of Supervisors (Board) has given their approval for the debt issuance.

A. Committee Structure

The Committee shall have four (4) members:

- Chief Administrative Officer (Chair)
- County Treasurer (Vice-Chair)
- Budget Director
- County Auditor-Controller

County Counsel, or his/her designee, as needed, will act as the Committee’s legal counsel and provide legal advice. The CAO is responsible for setting and distributing the agenda and chairing the meetings.

B. Committee Purpose

The Committee shall:

- Review all financing requests to determine if they comply with the DMGP and justify any recommended exceptions
- Certify the DMGP was followed, if applicable. The Committee's certification of compliance with the DMGP will be presented to the Board by the Chief Administrative Officer (CAO).

No act of the Committee shall be valid unless at least three (3) of the members concur and at least three (3) members are in attendance.

C. Meetings

Regular meetings shall be held at least annually and may be scheduled more often, as needed. Any scheduled meeting may be cancelled or re-scheduled by the Chair or, in his/her absence, the Vice-Chair.

D. Debt Review

Each proposed financing brought before the Committee will include a feasibility study that provides the following information on a "Proposed Financing" form (see Appendix A):

- A detailed description of the type and structure of the financing
- Full disclosure of the specific use of the proceeds and justification for borrowing as opposed to "pay-as-you-go"
- A description of the public benefit to be provided by the project or proposal
- The principal parties involved in the transaction
- Anticipated sources of repayment
- An estimated sources and uses statement
- Any credit enhancements proposed
- The anticipated debt rating, if any
- An estimated debt service schedule and how it compares to the asset life
- An analysis of the County's debt ratios after the completion of the financing, pursuant to established guidelines
- An analysis demonstrating the completed project can be supported with ongoing cash flow

Revisions to the DMGP may be appropriate from time to time to address changing financial goals, emerging financial products and debt structures, and unique market opportunities.

Exceptions and/or revisions to the DMGP can be made by the CAO, as necessary to keep aligned with industry best practices, and will be approved by the Board.

AUTHORITY AND RESPONSIBILITY

The CAO, with approval of the Board and as required by law, will coordinate the issuance of all long-term debt (debt with a final maturity of greater than thirteen (13) months) including issuance size, debt structuring, pledging of repayment sources, securing the professional services that are required to develop and implement the County's long-term debt program, and the method of sale. Relative to the County's long-term debt, the CAO shall be responsible for providing authorization to secure the services of one or more major credit rating agencies, maintaining relationships with the rating agencies that assign ratings to the County's various debt obligations, and for the filing and accuracy of disclosures and other bond related documents.

The Treasurer, with approval of the Board and in cooperation with the CAO and Auditor-Controller, will coordinate the issuance of all short-term debt (debt with a term of thirteen (13) months or less) including issuance size, debt structuring, pledging of repayment sources, selection of the financing team, including an underwriter or underwriting syndicate, and the method of sale. Relative to the County's short-term debt, the Treasurer shall also be responsible for providing authorization to secure the services of one or more major credit rating agencies, maintaining relationships with the rating agencies that assign ratings to the County's short-term debt obligations, and for the filing and accuracy of disclosures and other bond related documents.

The Auditor-Controller is responsible for providing accurate, audited financial statements and cash flow analysis used as a basis for disclosure.

County Counsel and the financing team will manage any legal activities that may arise with respect to issuance of the bonds. In circumstances where there may be legal uncertainty about some aspect of a proposed bond transaction, the County may pursue a validation action to obtain judicial approval before the bonds are issued to avoid a situation where a bond transaction is controversial and gives rise to a reverse validation action and possible litigation.

Should this or any other material situation arise, the Committee and/or the Board will be informed of action taken.

CREDIT ISSUANCE GUIDELINES

Although long-term financing usually requires higher total expenditures than a cash purchase, it has the benefit of allowing immediate completion of the project so those paying for the project are also those utilizing the project. Additionally, during times of rapidly increasing construction costs, the costs related to financing a project are sometimes less than construction cost increases caused by delaying the project until adequate cash is available.

The County will conform to State statutes, federal tax and securities regulations and the County Charter and will issue debt at levels consistent with its creditworthiness objectives. The County shall use an objective, analytical approach to determine whether it can afford to assume the new debt.

When analyzing the appropriateness of a debt issuance, the County shall compare generally accepted measures of affordability to the current property values for the County. These measures shall include, but not be limited to:

- Net Direct Debt as a Percentage of the Assessed Valuation: This is the outstanding principal of direct net debt, as of the end of the most recently ended fiscal year, as a percentage of the assessed valuation
- Net Direct Debt as a Percentage of Operating Revenues: This is the outstanding net direct debt, as of the end of the most recently ended fiscal year, as a percentage of operating revenues
- Total Governmental Funds Debt Service as a Percentage of Total Governmental Funds Expenditures: This is the annual debt service (principal and interest), as of the end of the most recently ended fiscal year, as a percentage of expenditures.

Net Direct Debt is the County's gross debt (including notes, loans, and capital leases) minus debt supported entirely by specific user fees.

Credit rating agencies assign a credit rating to a bond issue based upon an independent appraisal of the credit quality and likelihood of timely repayment. Generally, the credit rating is the most important factor in determining the interest rate on bonds. A review of recent credit rating agency guidelines indicated the County should strive to maintain these debt ratios at the following levels:

• Net Direct Debt/Property Valuations	2% or less
• Net Direct Debt/Operating Revenues	Less than 67%
• Total Governmental Funds Debt Service/Total Governmental Expenditures	Less than 5%

In assessing affordability, the County shall also examine the direct costs and benefits of the proposed project. The decision of whether or not to assume new debt shall be based on these costs and benefits, current conditions of the municipal bond market, and the County's ability to "afford" new debt as determined by the aforementioned measurements.

CAPITAL PLANNING AND FINANCING SYSTEM FOR LONG-TERM DEBT

The capital planning process will prioritize projects and identify the funding needs, as the aggregate cost of desired capital projects generally exceeds available funds. Whenever possible, the County shall pursue “pay-as-you-go," including impact fees, special assessments, self-supporting revenue or grant funding, instead of general fund obligated debt. The debt management process will determine the availability of funds which can be raised legally and effectively through debt issuance, the totality of projects that can be accomplished, and when the projects will commence. Close coordination of capital planning and debt management will ensure that County citizens achieve maximum benefit from available capital funds and that the potential for inappropriate or avoidable spending will be minimized. This coordinated program will be referred to as the Capital Improvement Program (CIP).

The County shall maintain a system for analyzing and preparing a multi-year CIP, which will be considered and adopted by the Board concurrent with or in close proximity to the County's annual budget process. The CIP will focus on capital expenditures for facilities, roads and bridges.

The CIP shall contain comprehensive descriptions of each project, including funding sources and timing. The CIP shall ensure planned financings conform to the DMGP targets regarding:

- Magnitude and composition of the County's indebtedness
- Economic and fiscal resources of the County to bear such indebtedness

Affordability impacts of the CIP shall be evaluated in consultation with the various County departments. Such planning will consider a long-term needs approach so project priorities and future commitments of funds are clearly visible, providing a basis for management decisions and public comment.

A. Maintenance, Replacement and Renewal

Consistent with a philosophy of keeping its capital facilities and infrastructure systems in good repair and to maximize the useful life of capital assets, the County should set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic replacement and renewal.

B. Asset Life

The County will consider long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets (including land) only if they have a useful life of at least five years. County debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed.

C. Competing Projects

Competing projects requiring funds will be evaluated according to priorities established by the Board. The selection of projects will consider the projects' abilities to meet the County's priorities and the financial requirements of the projects. For each project, the following information is necessary to assess the feasibility of the project and its funding with long-term debt:

1. Nature of Project and Use of Funds

The scope and nature of the project, as well as the intended use of the debt proceeds, will be described.

2. Cost-Benefit Analysis of Project

The CAO will ensure a cost-benefit analysis is conducted for each proposed project financing. The benefits of a proposed project will be defined and, where appropriate, quantified in monetary terms. The sources and uses of funds will be identified and estimated. Where revenues are part of the benefits, all assumptions made in deriving the revenues will be documented. The validity of the assumptions and the risk associated with the revenue streams will be assessed. The costs of the project will be estimated, with the basis of estimates documented and the risk associated with the estimates assessed.

The County will not assume tax-supported general-purpose debt without an objective analysis as to the community's ability to assume and support additional debt payments and operational costs.

If general fund debt, as opposed to general obligation bonds (GO bonds) is proposed, the CAO will identify the repayment sources and evaluate continued repayment ability over the term of the loan.

3. Expenditure Plan and Sources of Debt Servicing

The CAO will ensure a detailed expenditure and repayment plan is developed for each project. The plan will include total estimated project costs, project funding sources, and debt service estimates and repayment sources. The plan will demonstrate timely matching of available funds to project expenditures and commencement of scheduled debt service. The basis of estimates for the project cost expenditure plan and any supporting revenue cash flow estimates will be documented and the risk associated with such revenue streams will be analyzed.

TYPES AND PURPOSES OF DEBT

The County may issue debt for either new money or refunding (refinancing) purposes; however, long-term debt shall never be used to fund operating costs. There are many different types of financing instruments available. The financing instrument(s) used by the County depend(s) on legal constraints, investor demand, capital market activity and the type of project being financed.

Long-term debt is preferred for financing essential capital activities, including the acquisition, construction and rehabilitation of major capital assets, but may also be used to fund other liabilities such as self-insurance, workers' compensation insurance and unfunded pension or benefit liability.

The County may issue GO bonds, which are bonds secured by a promise to levy taxes in an unlimited amount as necessary to pay debt service. Debt service on the bonds is provided from *ad valorem* taxes on real property within the County. Under Section 1(b)(2) of Article XIIIA of the State Constitution, any new indebtedness to be repaid from an *ad valorem* tax levied against real property must be approved by a two-thirds majority of those voting on the bond proposition. However, under Section 1(b)(3) of Article XIIIA of the State Constitution, school districts may authorize GO bonds if the bonds are approved by 55% of those voting on the proposition. Bonds issued under this provision have statutory maximum aggregate ad valorem tax rates specified (by type of school issuer).

While GO bonds typically are the least expensive debt available to government entities (tax supported bonds are considered to be a lower risk), drawbacks include:

- Forecasting tax revenues for budgeted debt service can be difficult since property values can stagnate or fluctuate over the loan term
- Two-thirds voter approval (55% in the case of school bonds) is difficult to obtain
- The election process may be too time intensive and costly to pursue
- The use of GO funds is limited to real property acquisitions or improvements, potentially resulting in the need for additional financing to acquire necessary equipment and furniture for the property

The County may also use long-term lease obligations to finance or refinance capital equipment or facilities. Prior to entering into any lease financing, the County will evaluate 1) the useful life of assets financed, 2) terms and conditions of the lease and 3) budgetary, debt capacity and tax implications.

The County may issue Certificates of Participation (COPs) to finance the acquisition of equipment or construction of a facility. COPs are a form of lease obligation in which the County enters into an agreement to pay a fixed amount annually to a third party, usually a nonprofit agency or a private leasing company. Because they do not constitute indebtedness under the State constitutional debt limitation, COPs do not require voter approval and do not count towards a jurisdiction's debt volume limitations. Payments are subject to annual appropriations.

The County may use short-term obligations as a cash management tool to provide interim financing, to bridge temporary cash flow deficits within a fiscal year, and/or to reduce or hedge interest rate costs.

The County may issue Tax and Revenue Anticipation Notes (TRANs), which are short-term notes issued, in part, to finance the County's operating (General Fund) cash flow requirements during the fiscal year. Voter approval is not required. The proceeds from the sale of TRANs allow the County to cover periods of cash shortfalls resulting from a mismatch between the timing of revenues and the timing of expenditures. County expenditures tend to occur in relatively level amounts throughout the year while receipts follow an uneven pattern. Tax payments and other revenues are used to secure TRANs. TRANs proceeds may be used for any purpose, including current operating expenses, capital expenditures, repayment of indebtedness, investment and reinvestment. Pursuant to California Government Code Section 53821, the Treasurer and Auditor-Controller are responsible for making a recommendation to the CAO and Board for the issuance of TRANs.

Before issuing TRANs, cash flow projections will be prepared by the Auditor-Controller and reviewed by the Treasurer. The timing of the borrowing, the due date of the notes, and the timing, segregation, and mechanisms of funds for repayment will be components of the cash flow and cash management analysis performed by the County.

Below are brief descriptions of many of the financing options not discussed elsewhere in the DMGP:

Bond Anticipation Notes

Where their use is judged to be prudent and advantageous, the County may choose to issue Bond Anticipation Notes as a source of short-term, interim construction financing. Before issuing such notes, takeout financing must be planned for and determined to be feasible (takeout financing is long-term financing replacing the short-term construction loan).

Joint Venture Arrangements with Other Governmental Agencies

When a project serves the public interest beyond County boundaries, the County seeks out joint arrangements where other governmental bodies share the debt burden. Joint venture debt is repaid through revenues generated by the project. The County will only be liable for its share of debt service, as specified by contract. All capital requests will explore the interaction and funding potential with other government agencies. If potential does exist, then the possibility for grants or cost sharing will be explored, quantified and specific financial arrangements and liabilities negotiated.

Lines of Credit

Where its use is judged by the Committee to be prudent and advantageous to the County, the County has the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines of credit that shall provide the County with access to credit under terms and conditions as specified. Before entering into any such agreements, takeout financing or other repayment sources for the lines of credit must be planned for and determined to be feasible.

Mello-Roos Bonds

Pursuant to law, the Board is authorized to establish a Community Facilities District (CFD), also known as a Mello-Roos District, and act as the legislative body for the proposed district. CFDs may be established to finance either public capital facilities or public services or both. Upon approval by two-thirds of the qualified electors within the district, the County may issue bonds and levy and collect a special tax within such district to repay the indebtedness.

Revenue Bonds

Revenue bonds may be issued by enterprises to finance capital projects. The enterprises do not have taxing authority but may sell bonds which are repaid through restricted revenues and user fees. When appropriate, self-supporting revenue bonds shall be issued before general obligation bonds. The revenues generated must be sufficient to cover the debt repayment and interest. As a planning target, estimated revenue will be required to be maintained at 150% of the maximum annual debt service. The County will make annual adjustments to any rate structure relating to revenues pledged to a bond issue, if necessary, to maintain a 150% coverage factor. The revenue bonds will not be secured by any pledge of ad valorem taxes. When capital projects are financed by issuing revenue bonds, the term of the bonds will not exceed the expected life of those projects. The issuance of revenue bonds requires Board approval, but does not require voter approval.

Special Assessment Bonds

Special Assessment Districts are legally designated geographic areas located within the County, which, through the consent of the affected property owners, pay for basic infrastructure and public improvement to the area through a supplemental assessment. Bonds issued for financing projects of the district are repaid by special assessments of the property owners. This financing approach achieves the objective of tying the repayment of debt to those property owners who directly benefit from the improvements financed.

Term Bonds, Serial Bonds, and Capital Appreciation Bonds (CABs)

Term bonds are those where all bonds, or a portion of the issue equal to that which would mature over a period of two or more years in a bond issuance, mature at a single time. Term bonds can be structured so that a portion of term maturity is mandated to be called or retired each year (called sinking reserves) to mirror a serial bond structure. The funds paid into the sinking reserves each year may be used at that time to retire a portion of the term bonds ahead of their scheduled redemption. Sinking reserves are preferred by investors since these funds provide the security of knowing that the issuer appropriately budgets and accounts for its expected future payments. Sinking reserves also ensure that the payment of funds at maturity does not overtax the issuer’s resources at that time.

Serial bonds are bonds maturing annually (or serially) in specified amounts. CABs, also known as “zero-coupon bonds,” are deeply discounted bonds that pay investors the face value of the bonds upon maturity. CABs will be utilized in certain cases to better manage a project’s cash flow to the bond’s debt service.

The decision to use term, serial, or CABs is typically driven by bond marketing conditions. Specifically, if there is strong demand or weak demand for a particular bond maturity, the underwriter may combine two or more years of serial maturities as a term bond to take advantage of the strong demand or avoid the weak demand.

METHODS OF ISSUANCE AND SALE

A. Methods of Sale

1. Long-Term Debt

Long-term debt issues are sold to an underwriter or underwriting syndicate either through a public offering or a private offering. An underwriter or underwriting syndicate purchases bonds from an issuer with the intent to resell the bonds to investors. An underwriting syndicate is a firm or a group of firms that will purchase all of the bonds from the issuer and sell them to investors. For all negotiated sales, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance being proposed. The following criteria will be considered in selecting an underwriter: Overall experience as a managing or co-managing underwriter; marketing philosophy and distribution; capability of marketing or underwriting bonds; satisfactory performance as underwriter for previous County financing(s); financial strength, as evidenced by the firm's current financial statement; experience of the public finance team assigned to the financing; resources to complete the financing; and the total overall cost and breakdown of the underwriter's discount. The selection of underwriters may be for an individual or series of financings or a specified time period. The selected method of sale will be that which is the most advantageous to the County, as determined by the CAO, in consultation with the Committee, in terms of lowest borrowing costs, net interest rate, most favorable terms in the financial structure used, market conditions, and/or prior experience. The Board must approve the process selected prior to the sale.

Public Offerings - Public Offerings can be executed through either a negotiated sale or a competitive sale.

a. Negotiated Sale

A negotiated sale is a sale of bonds whereby the terms and price are negotiated by the County through an exclusive agreement with a previously selected underwriter and/or underwriting syndicate. In many cases, County debt is issued via a negotiated process, which provides the County control over the financing structure, the issuance timing and flexibility of distribution. In addition, competitive bidding on bond pricing may be included within the negotiated terms.

b. Competitive Sale

In a competitive sale, competing underwriters deliver sealed bids to the County, at the time and place specified in the official notice of sale. The County selects the underwriter offering the best terms at the time. Bids will be awarded on a True Interest Cost (TIC) basis, providing other bidding requirements are satisfied. TIC is a method of calculating bids for new issues that takes into consideration certain costs of issuance and the value of money. In such instances where the CAO deems the bids received unsatisfactory, the CAO may enter into negotiations for sale of the securities or reject all bids. The notice of sale will be carefully constructed to ensure the best possible bid for the bonds, in light of existing market conditions and other prevailing factors.

Private Placement - When determined appropriate by the CAO, and recommended by the Committee, financing terms for specific borrowings may be negotiated directly with banks, financial institutions and federal government agencies such as the United States Department of Agriculture Office of Rural Development. Typically, such private offerings are carried out by the County to avoid the costs of a public offering; therefore, reducing the costs of borrowing. Lease or Lease/Purchase arrangements are a typical venue for private placement.

2. Short-Term Debt

a. Underwriter Selection

The Treasurer may select an underwriter through a negotiated arrangement determined to be advantageous to the County in the current market environment or through a competitive bidding process. It is typical that a negotiated sale will, however, use a competitive bid process when the notes go to market, thereby providing the lowest available pricing on a competitive basis.

b. Private Placement

Upon consideration of market conditions, and after recommendation by the Committee, the Treasurer may determine it is in the best interest of the County to negotiate directly with a bank or other financial institution for placement of a short-term note, such as TRANs.

B. Official Statement Disclosure Requirements

All debt issues will meet the disclosure requirements of the Securities and Exchange Commission (SEC) and other government agencies before and after the bond sales take place. The purpose of the SEC requirements is to deter fraud and manipulation in the municipal securities market. The disclosure documents, particularly the Official Statement (OS), in the case of Competitive and Negotiated Sales, will provide the potential investor with full and accurate information necessary to make prudent investment decisions. An OS is not provided when long-term debt issues are sold through private placement(s). Information in the OS generally includes the County government description, comprehensive annual financial data, tax base, current debt burden, history of tax collections, bond repayment, future borrowing plans, the source of funds for the proposed debt repayment and information specific to the bond issue. County Counsel is responsible for ensuring the disclosure of any material litigation or issues that may impact the County's fiscal condition or ability to repay debt. The Auditor-Controller, CAO, and Treasurer are responsible for validating the accuracy and completeness of financial disclosures.

SELECTION OF FINANCIAL CONSULTANTS AND SERVICE PROVIDERS

One of the first decisions to be made by the CAO and the Treasurer, in consultation with the Committee, is the selection of the initial members of the debt financing team, including bond counsel, a financial advisor and underwriter. The nature of the team members may depend upon several factors, including the type of debt being issued and procedural requirements for the type of debt.

Any consultant or service provider contracting with the County must meet the County's contract and insurance requirements. The County will maintain professional service agreements with qualified professionals related to the issuance and management of debt, including, but not limited to: bond counsel, disclosure counsel, underwriter's counsel, financial advisor(s), underwriter(s), trustee and paying agent, credit rating agencies, escrow agent, printer, insurer, and arbitrage and rebate tax consultant.

1. Bond Counsel

External bond counsel shall be retained for debt issues when required by a lender or when a written opinion affirming the County is authorized to issue the debt, stating the County has met all State constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status is required for the financing. Bond counsel will prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing.

2. Underwriter’s Counsel

If the financing is to be sold on a negotiated basis, an underwriter’s counsel will be retained. Underwriter’s counsel’s primary responsibility is to provide legal advice to the underwriter, prepare the purchase contract, the Preliminary Official Statement (POS) and the OS. Generally, the underwriter’s counsel will also serve as the disclosure counsel and may also serve as bond counsel. Payments for underwriter’s counsel will be authorized on a case-by-case basis, depending on the nature and complexity of the transaction and the needs expressed by the underwriter.

3. Financial Advisor

A financial advisor shall be selected for all public offering debt transactions to be sold on a competitive or negotiated basis. The County may select a financial advisor for private placement debt transactions. The primary responsibilities of the financial advisor are to advise and assist on the structuring, call provision options, rating and issuance of debt, timing of issuance, and generally act as an independent financial consultant and economic market expert.

4. Trustee and Paying Agent

The CAO and the Treasurer shall periodically solicit for trustee and paying agent services from qualified commercial and trustee banks. The trustee and paying agent will be selected based on the cost of providing such services, along with other qualitative measurements. The CAO or Treasurer, as appropriate, shall recommend the trustee, paying agent, and the terms of the agreements to the Committee. The trustee/paying agent is responsible for carrying out the administrative functions that are required under the bond documents. These functions include, but are not limited to, establishing the accounts and holding the funds relating to bond issues, maintaining a list of the bondholders, and paying principle and interest on the debt.

Compensation for bond counsel, underwriter's counsel, financial advisors and other financial service providers will be as low as possible, given desired qualification levels, and consistent with industry standards. All costs and fees related to issuance of bonds will be paid out of bond proceeds.

TERM AND STRUCTURE OF COUNTY LONG-TERM DEBT

A. Term of Debt

Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users, in order to achieve the lowest possible net cost and recapture credit capacity for future use.

B. Debt Service Schedules

The CAO will seek to structure debt with aggregate level principal and interest payments over the life of the debt. Backloading of debt service or use of CABs (delaying repayment of principal until the end of the financing term) will be considered only when:

- The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present
- Such structuring is beneficial to the County's aggregate overall amortization schedule
- Such structuring will allow debt service to more closely match revenues during the early years of the project's operation
- The structure has been fully considered and recommended for approval by the Debt Advisory Committee and the financial impact is fully disclosed to the Board of Supervisors

C. Use of Variable-Rate Securities

When appropriate, the Committee may recommend Board approval to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities.

D. Debt Limitations

The CAO will ensure outstanding debt remains within the limits prescribed by State statute and at levels consistent with its creditworthiness, best practices, needs and affordability objectives. Long-term obligations payable solely from specific pledged sources, in general, are not subject to a debt limitation. Examples of non-restrictive debt are the financing or refinancing of projects by the issuance of debt instruments payable from restricted revenues or user fees (Enterprise Funds), revenues generated from a project, or special assessment districts. In addition, these long-term obligations do not constitute obligations with a claim against any other resources of the government, if the pledged sources are insufficient.

E. Debt Service Reserves

In situations where there is significant uncertainty about expected revenues, or if required by the underwriter, the CAO, upon Committee recommendation and Board approval, will increase the sizing of the bond issue to provide for the funding of a debt service reserve. The reserve is available to the trustee to make principal and interest payments to bondholders in the event other available funds are insufficient to do so and are often required as part of the financing structure. Alternatively, the purchase of a surety bond in lieu of a debt service reserve fund may be considered if it results in a lower overall cost to the County. GO bonds generally do not require a reserve fund.

CREDIT RATINGS

The County seeks to maintain the highest possible credit ratings for all categories of short and long-term obligations that can be achieved without compromising delivery of basic County services and achievement of County DMGP objectives. The County recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the County is committed to ensuring that actions within its control are prudent. Accordingly, each proposal for additional debt will be analyzed for its impact on the County's credit rating.

The County's minimum rating requirement for its direct debt obligations is a rating of "investment grade" or higher. If such a debt obligation cannot meet this requirement, based on its underlying credit strength, then credit enhancement may be sought to ensure that an appropriate rating is achieved. Obligations whose ratings would fall below the minimum rating requirement may be issued without a rating if credit enhancement is unavailable or the CAO, in consultation with the Committee, determines the benefit of credit enhancement is not cost effective. A lower rating standard may be accepted for indirect or conduit obligations, subject to the approval of the CAO.

The financing team will assess the probable rating of the proposed debt before its issuance. There are various considerations in determining the County's credit rating and its effect on pricing in the current municipal bond market. These include economic conditions related to the stability and reliability of sources for debt repayment, the County's reserve levels, debt history, current debt structure, the history of fiscal responsibility, and the County's management capabilities.

The use of credit enhancement may be considered if it reduces the overall costs of the proposed financing. For example, a Letter of Credit may be secured from a major bank to enhance the credit rating. This letter is an unconditional pledge of the bank's credit to guarantee principal and interest payments for a specific debt issuance, should the County be unable to meet its debt service obligation. Bond insurance is also a potential means of enhancing the bond's credit rating or marketability. However, both of these credit enhancement methods represent an added cost in terms of the bank's fee or the insurer's premium and must be evaluated.

INVESTMENT OF BOND PROCEEDS

The proceeds from the sale of bonds will be invested until used for the intended project in order to maximize utilization of public funds. The investments will be carefully placed to obtain the highest level of safety. The Butte County Treasurer's Statement of Investment Policy and the bond indentures and/or trust agreements should be referred to for more details on objectives and criteria for investment of bond proceeds. Bond proceeds will be invested, at fair market value, by the Treasurer in a manner that minimizes any potential negative arbitrage over the life of the debt issue. Bond documents should be carefully reviewed to ensure both the Local Agency Investment Fund (LAIF) and the Butte County Pooled Investment Portfolio are approved investments. Investments held by trustees shall be disclosed in the Treasurer's Investment Report. Documentation pertaining to all investments of bond proceeds will be maintained by the Treasurer and periodically provided to the CAO, who is responsible for reporting arbitrage and rebate compliance notices to trustees and/or the Internal Revenue Service, as delineated in the financing documents.

REFUNDING LONG-TERM DEBT

A. Call Options

The CAO will determine the call option, if any, the call protection period, and the call premium for each bond sale. A call option or optional redemption provision gives the County the right to prepay or retire debt prior to its stated maturity. This option may permit the County to achieve interest savings in the future through refunding of the bonds. Often the County must pay a higher interest rate as compensation to the buyer for the risk of having bonds called in the future. In addition, if a bond or debt is called, the holder may be entitled to a premium payment ("call premium"). Because the cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the following will be conducted in connection with each issue:

- The call premium
- Level of rates relative to historical standards
- The time until the bonds may be called at a premium or at par
- The need for original issue discounts
- The recommendation of the Committee

B. Current and Advance Refunding

As defined for federal tax law purposes, the County may issue current or advance refunding bonds when advantageous, legally permissible, prudent, and when aggregate net present value savings (expressed as a percentage of the par amount of the refunding bonds) equal or exceed 3%. Refundings of current debt shall be made only if recommended by the CAO and the Committee, and approved by the Board. Refundings with negative savings will not be considered, unless there is a compelling public policy objective.

Periodic review of all outstanding debt will be undertaken to determine refunding opportunities. Within federal tax law constraints, a refunding will be considered if and when there is a net economic benefit or if it is imperative in order to modernize covenants essential to operations and management. A current refunding provides that all proceeds (aside from expenses and reserve fund, if required) are used to extinguish existing debt at a savings to the County in the overall repayment costs. Managers of existing projects may request refundings for the purpose of taking advantage of more favorable economic conditions and lower market interest rates, restructuring the principal and debt service payments, or eliminating burdensome covenants with bondholders. Advance refundings are used to refinance outstanding debt before the date the outstanding debt becomes due or callable. Proceeds of advance refunding bonds are placed into an escrow account with a fiduciary agent and used to pay interest and principal on the refunded bonds until final redemption at their maturity or call date.

The financial advantages of a refunding must outweigh the costs and risks of reissuing bonds. The request for refunding will be assessed with competing new capital projects requiring financing. In no event will the maturity date of the refunding issue exceed the original maturity date of the refunded debt.

Savings requirements for current or advance refunding undertaken to restructure debt may be waived at the recommendation of the CAO, in consultation with the Committee, with Board approval, upon a finding that such a restructuring is in the County's overall best financial interest.

C. Refunding Escrows

The County may seek to purchase State and Local Government Securities (SLGS) to fund its refunding escrows. At the direction of the CAO and Treasurer, the County may choose to fund an escrow through the purchase of treasury securities on the open market when market conditions make such an option financially preferred. The Treasurer shall be responsible for developing procedures for executing open market purchases and the savings objectives to be achieved by undertaking such actions.

DERIVATIVES & CONDUIT FINANCINGS

A. Derivative Products

The County may choose to enter into contracts and financing agreements involving interest rate swaps (contracts that allow a debt issuer to "swap" the interest rate it currently pays on an outstanding debt issue), floating/fixed rate auction or reset securities, or other forms of debt bearing synthetically determined interest rates as authorized under the applicable statutes. The County will consider the use of derivative products on a case-by-case basis and consistent with State statute and financial prudence.

Prior to considering any derivative agreement, a separate derivatives policy will be established by the CAO, in collaboration with the Committee, and approved by the Board. Before entering into such contracts or agreements, the CAO will review the risks and benefits of such financing techniques and the expected impacts on the County's long-term financial operations and credit ratings. The completed report shall be presented to the Committee for review before any recommendations are submitted to the Board for authorization and implementation.

B. Conduit Financings

Conduit financing is a financing in which the proceeds of the issue are loaned to a non-governmental borrower who then applies the proceeds for a project financing or, if permitted by federal tax law for a qualified 501(c)(3) bond for working capital purposes. The County may sponsor conduit financings for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the County's overall service and policy objectives. All such conduit financings must insulate the County completely from any credit risk or exposure and must first be approved by the CAO before being submitted to the Board for authorization and implementation. Separate guidelines and procedures will be established for public finance pertaining to the use of the Mello-Roos Community Facilities Act of 1982, the 1911, 1913 or 1915 Acts, the Landscaping and Lighting Act of 1972 or any other Act pertaining to the use of Land-Based Financing Districts, as a conduit financing mechanism.

GO Bonds, TRANs and other debt issued by School Districts and the Board of Education under the Education Code require that the Board adopt a resolution to issue the debt on behalf of the schools. This type of conduit financing is managed by the Treasurer, who invests the bond proceeds on behalf of the schools and who may also serve as trustee or paying agent for the schools' short-term debt issuance. The Treasurer is responsible for ensuring that initial disclosure of related County information for the Official Statement for each debt issuance is provided timely and accurately. The Treasurer remains responsible for ensuring continuing disclosure requirements are met annually for debt issued by the Board of Supervisors on behalf of a school district after January 1, 2017, in accordance with the provisions of SB1029; bonds issued prior to January 1, 2017 place the responsibility for continuing disclosure with the school district. Arbitrage/rebate reporting requirements on such debt issues are the responsibility of the issuer; however, care must be taken to ensure that investment parameters, as established in the bond documents, are adhered to and that arbitrage and rebate legal restrictions are met, including periodic reporting of interest earnings to the school issuing the debt.

School Districts also have the authority under Government Code to directly issue GO Debt with the approval of the Board of Supervisors. The analysis and recommendation for approval of direct issuance is the responsibility of the Treasurer and requires scrutiny of the proposed debt structure and the bond documents.

The Auditor-Controller is responsible for annually establishing the ad valorem tax rate for each GO bond issue and maintaining records and communications with the school districts and trustees pertaining to debt service payments.

When analyzing a proposed conduit financing, the County shall consider the borrower's creditworthiness, including a minimum credit rating, the purpose of the borrowing issue, the appropriateness of the debt structure and overall cost of repayment, and the impact the financing could have on the Overall Debt applicable to the County as a percentage of the County's total assessed value. Such limitations reflect sound public policy, particularly if there is a contingent impact on the general revenues of the County or the marketability of the County's own direct debt.

Overall Debt is comprised of the County's direct debt burden and the debt levels of underlying and overlapping entities such as school districts, college districts, and cities within the County. The County's proportional share of the debt of other local governmental units which overlap it or underlie it is called the overlapping debt. Overlapping debt is generally apportioned based upon relative assessed value. While the County does not control debt issuance by other entities, it recognizes that its taxpayers share the overall debt burden.

A review of recent credit rating agency guidelines indicated the County should strive to maintain the Overall Debt as a Percentage of the Assessed Valuation below ten percent (10%), while acknowledging a ratio of less than three percent (3%) has a favorable effect on credit ratings, a ratio between three percent (3%) and less than ten percent (10%) has a neutral effect on credit ratings and a ratio of ten percent (10%) or greater has a negative effect on credit ratings.

ANNUAL AUDITED FINANCIAL STATEMENTS

The annual Comprehensive Annual Financial Report (CAFR) of the County shall describe all funds and fund balances established as part of any direct debt financing of the County. The CAFR may also contain a report detailing covenants contained in any direct offering of the County and whether or not such covenants have been satisfied. The Auditor-Controller is responsible for the accuracy and completeness of the CAFR.

FINANCIAL DISCLOSURE, MONITORING, AND RECORDKEEPING

To assure clear, comprehensive, and accurate financial information, the County is committed to meeting secondary disclosure requirements on a timely and comprehensive basis, cooperating fully with rating agencies, institutional and individual investors, County departments and agencies, other levels of government, and the general public. Complete and accurate disclosure supports the taxable or tax exempt status of bonds issued by the County and provides transparency regarding County finances and operations.

The CAO, Treasurer, and Auditor-Controller, pursuant to their authority, shall be responsible for the following as they apply to County long-term and short-term debt issues:

1. Providing the trustees and/or dissemination agents ongoing disclosure information for filing with the Municipal Securities Rulemaking Board via the Electronic Municipal Markets Access (EMMA). The County may elect to utilize the services of a dissemination agent for continuing disclosure reporting; however, the responsibility for ensuring the reports are filed timely remains with the County.

2. Maintaining compliance with disclosure standards promulgated by State and Federal regulatory bodies, such as annual reporting to the California Debt and Investment Commission of the State Treasurer's Office in accordance with SB1029 for debt issued after January 1, 2017.

3. Ensuring the CAFR and continuing disclosure statements meet (at a minimum) the standards articulated by the Government Accounting Standards Board (GASB), the Securities and Exchange Commission (SEC), and Accounting Principles Generally Accepted in the United States (US GAAP).

4. Monitoring to ensure all covenants and annual continuing disclosure requirements are complied with, including requiring each County department, agency, district or authority to notify the CAO immediately upon the occurrence of any event, specified in Rule 15c2-12 under the Securities Exchange Act of 1934, which must be filed with

EMMA. Examples of such events are credit rating downgrades, major disasters, major litigation, default on existing debt, bankruptcy, etc. and for TRAN issuance, ensuring cash deficit requirements are met for each issuance, in order to meet arbitrage and rebate requirements and protect the tax exempt status of each issuance.

5. Providing an annual certification to the Board documenting the County's compliance or non-compliance with State and federal disclosure laws. This certification shall be tendered at the first meeting of the Board in April of each year.

6. Annually, applying the private business use, private payment or security, and the private loan financing tests to ensure the tax exempt bond issues are not issues of private activity bonds. Monitoring shall include:

(a) Reviewing the amount of existing private use of bond-financed facilities,

(b) Identifying any new sale, lease or license, management contract, or other arrangements involving the private use of a bond-financed facility, and

(c) Promptly consulting with bond counsel as to any possible private use of a bond-financed facility and any necessary remedial action. Generally, an issuer will not loan more than 5% of the proceeds of an issue to one or more nongovernmental persons. The issuer does not expect to allow and will not allow more than 10% of the sale proceeds and investment proceeds of the issue or of the bond-financed facility to be privately used directly or indirectly by any nongovernmental person in any trade or business, other than as a member of the general public. For purposes of the preceding sentence, "10%" is reduced to "5%" for nongovernmental use of any facility financed or refinanced from the proceeds of an issue which are disproportionate to or not related to the governmental purposes of the issue. Absent an opinion of counsel a nongovernmental person is treated as "privately using" proceeds of the issue to the extent the nongovernmental person:

(i) borrows proceeds of the issue,

(ii) uses the bond-financed facility (e.g., as owner, lessee, service provider, operator or manager), or

(iii) acquires the output (or throughput) of the bond-financed facility.

7. Establishing and maintaining a system of monitoring, reporting and recordkeeping to meet the arbitrage rebate compliance requirements of the federal tax code. Arbitrage in the municipal bond market is the difference in the interest paid on the tax-exempt bonds and the interest earned by investing the bond proceeds in taxable securities. If interest rates on investments are higher than the interest on the bonds, there is positive arbitrage. The tax code requires that, to the extent the investment yield exceeds the bond yield, such excess must be rebated to the federal government, subject to the exceptions discussed in paragraph (c), below. The system shall include annually:

(a) Ensuring investments of proceeds comply with yield restrictions throughout their investment life;

(b) Tracking the investment earnings on bond proceeds since issuance and calculating any rebatable earnings (rebatable earnings are amounts earned from the investment of the gross bond proceeds at a yield in excess of the yield on the issue);

(c) Applying exceptions to the application of rebatable earnings for certain investments of bond proceeds [e.g., if investments were (i) during a temporary period, (ii) part of a reasonably required reserve or replacement fund, or (iii) as part of a minor portion (an amount not exceeding the lesser of 5% of the sale proceeds of the issue or $100,000)];

(d) Remitting any rebatable earnings to the Federal government no later than sixty (60) days after the end of every fifth (5$^{th)}$ bond year throughout the term of a bond issue. The CAO has the authority to contract with parties specializing in arbitrage/rebate calculations, if deemed necessary; and

(e) Satisfying the Arbitrage Rebate/Yield Reduction Filing Requirements-Form 8038-T or Form 8038-R, if applicable.

8. Ensuring debt service for all existing and anticipated debt is properly budgeted and appropriated for each fiscal year and documenting any specific revenue sources for repayment.

9. Initiating scheduled debt service payments.

10. Reconciling bank statements for money managed by trustees.

11. Developing procedures to verify all payments for construction and other debt related expenditures (CAO, in cooperation with the Auditor-Controller). The most recently approved Construction and Debt Related Expenditure Verification Procedures ("Procedures") are attached hereto as Appendix B. The Committee shall have the sole authority to approve the Procedures, including the accompanying Internal Controls Checklist for Construction and Debt Related Expenditures, and all amendments thereto.

12. Retaining all material records related to bond financings, in a combination of paper and electronic forms, including, but not limited to:

(a) Records relating to the bond transaction, including documents prepared by bond counsel, audited financial statements, offering documents (including the official statements), minutes and resolutions authorizing the bond financings, appraisals, surveys, feasibility studies, documents related to government grants, publications/articles related to County bond financings, correspondence, any IRS correspondence or examinations, and arbitrage related documents and calculations;

(b) Documentation evidencing expenditure of bond proceeds;

(c) Documentation evidencing use of bond-financed property;

(d) Documentation of allocation of bond proceeds to issuance costs;

(e) Copies of construction and purchase contracts, requisitions, draw schedules, draw requests, invoices, bills, and cancelled checks related to bond proceeds spent for construction or purchase of bond financed facilities;

(f) Copies of all agreements, contracts, leases, subleases, ownership documentation, and entity formation documentation;

(g) Documentation evidencing all payments and security for the bonds;

(h) An asset list or schedule of all bond-financed facilities or equipment;

(i) Depreciation schedules for bond-financed depreciable property; and

(j) The tracking of purchases and sales of bond-financed assets.

13. Maintaining material records for as long as the bonds are outstanding plus three (3) years after the final redemption date of the bonds.

14. Ensuring all County staff involved with debt issuance will be provided pertinent educational resources, enrolled in training/educational seminars and classes, and trained by knowledgeable staff to ensure compliance with all applicable Federal and State laws and regulations.

ETHICS AND CONFLICT OF INTEREST

Officers and employees of the County involved in debt issuance and debt management will not engage in any personal business activities that might impair their ability to make impartial decisions, or that could conflict with proper and lawful execution of the County's debt issuance and post-issuance management of debt and these DMGP.

APPENDIX A

PROPOSED FINANCING

Project Title:____

Date of Request:______________________________________

County Administration Staff Contact:

Name:____
Phone Number:____
Email Address:____

PROJECT DESCRIPTION

Estimated Project Cost: $______________________________

Proposed Financing Amount: $__________________________

Amount of Cash Injection: $_____________________________

Estimated Financing Closing Date:_______________________

Narrative:____
____
____
____
____
____

RECOMMENDATION
(Comparison and discussion of the financing proposals received for the project and staff recommendation)

____
____
____
____
____
____

JUSTIFICATION FOR FINANCING
(Detailed cost analysis, use of proceeds, justification for borrowing versus "pay as you go", public benefit to be provided by the project, useful life of project)

____
____
____
____
____
____

ANALYSIS

Estimated Financing Costs:____

All-In True Interest Cost (if applicable):____

Estimated Credit Rating (if applicable):____

Credit Enhancement Recommended? Yes___ No___
If yes, provide details: ____
____

General Fund Debt: Yes___ No___

Tax Exempt or Taxable: Tax Exempt ___ Taxable___

Does Cash Flow Analysis Demonstrate Operational Costs of the Completed Project Can Be Supported? Yes___ No___

Type and Structure of the financing:____
____
____
____

Pledged Asset(s):____
____
____

Payment Terms:

Loan Term:________years

Interest Rate: ______% Fixed _____ Variable_____

Payment Frequency: Principal: ________________________ (Quarterly, Semiannually, Annually)
Interest: ________________________ (Quarterly, Semiannually, Annually)

Estimated Annual Debt Service: $___________________

Narrative:____
____
____
____
____
____
____

Funding Sources:

Cash Injection:____

Debt Service:____

Narrative:

____

____

____

Prepayment Penalty: Yes___ No___
If yes, provide prepayment penalty terms:________________________________

____

Affordability Guidelines:

When analyzing the appropriateness of a debt issuance, the County of Butte Debt Management Guidelines and Procedures (DMGP) requires the County to compare generally accepted measures of affordability to the ratios calculated for the County. Debt ratios are one of the key factors influencing a bond rating issued by a credit rating agency.

Ratios for Butte County after the closing of the proposed financing:

(a) Net Direct Debt/Property Valuations (2% or less recommended in DMGP)

____

(b) Net Direct Debt/Operating Revenues (Less than 67% recommended in the DMGP)

____

(c) Total Governmental Funds Debt Service/Total Governmental Expenditures (Less than 5% recommended in the DMGP)

____

<u>FOR CONDUIT FINANCINGS</u>:

Ratio after the funds of the proposed conduit financing are fully issued:

Overall Debt/Property Valuations

[DMGP guidelines: Less than 3% has a favorable effect on credit ratings;
3% to less than 10% has a neutral effect on credit ratings; and
10% or greater has a negative effect on credit ratings]

PENDING FINANCINGS (5 YEAR HORIZON)

Year Needed	Amount of Financing	Repayment Source	Project Description

Total Governmental Funds Debt Service/Total Governmental Expenditures (Less than 5% recommended in the DMGP)

1 Year: _______________ 5 Year Forward Average: ____________________________

ADDITIONAL CONSIDERATIONS

(a) Are the affordability ratios within the ranges recommended in the DMGP and support the County's ability to afford the proposed debt? Yes___ No___
If no, provide an explanation:____

(b) Does the average life of the project significantly exceed the five year minimum useful life and repayment period required under the DMGP? Yes___ No___
If no, provide an explanation:____

(c) Are the long-term cash flows of the repayment sources forecasted to be sufficient to support the proposed debt service for the full term? Yes___ No___
If no, provide an explanation:____

(d) Are the current market conditions favorable for financing debt? Yes___ No___
If no, provide an explanation:____

(e) The long-term financing of the project versus the pay as you go method of funding allows this high priority project to be completed more quickly and reduces the burden on the funding sources so other essential capital projects may be pursued. Yes___ No___

Additional comments:
____
____
____
____

<u>Debt Advisory Committee Recommendation</u>:

Vote Count: APPROVE __ MODIFY __ DENY __ ABSTAIN __ ABSENT ___

____
____
____
____
____

Dissenting Opinion(s), as applicable. Attach additional documentation, if needed.

____
____
____
____

<u>Recommended Financing Team, if applicable</u>

Bond Counsel: ______________________________Financial Advisor: ________________________________

Underwriter: _______________________________Trustee: ____

APPENDIX B

CONSTRUCTION AND DEBT RELATED EXPENDITURE VERIFICATION PROCEDURES

Invoices for financed capital assets and/or capital improvements must be processed in accordance with the following procedures:

(a) Responsible Department

(i) Verifies the invoice complies with the contract terms,

(ii) Determines the work being invoiced has been satisfactorily completed and the charges are correct, and

(iii) Initials the invoice indicating approval to pay

(b) Responsible Department

(i) Verifies the invoice complies with the contract terms,

(ii) Verifies sufficient funds have been appropriated and are available to make the payment, and

(iii) Verifies the remaining encumbered funds are sufficient to cover the invoice

(c) Responsible Department

(i) Reviews and approves the payment of the invoice

(d) Responsible Department

(i) Verifies the invoice complies with the contract terms

(e) Responsible Department

(i) Provides copies of the approved invoice and supporting documentation to County Administration

(f) County Administration

(i) Submits a disbursement request to the lender. When approved, the lender will wire the funds to the County, or

(ii) In the case of use of dedicated bond proceeds, submits an itemization of the requested disbursement to the Treasurer-Tax Collector and the Auditor-Controller

(g) Responsible Department

(i) Prepares and submits the request for payment to the Auditor-Controller's office in accordance with the County's accounts payable procedures

(h) County Administration

(i) In the case of an incoming wire of financing proceeds, provides the Auditor-Controller and the Treasurer-Tax Collector the amount and date of the wire and the applicable coding on the prescribed ACH/Wire Transfer Form containing an authorizing signature. For recurring payments, establish a wire or ACH template with the Treasurer-Tax Collector at least one month prior to the first payment.

(i) Auditor-Controller

(i) Verifies the invoice has been approved for payment by the parties with legal authority,

(ii) Verifies there are available appropriations for the payment,

(iii) Verifies the invoice is from a legitimate company for which the County holds a current IRS Form W9, and

(iv) Pays the invoice from the financing proceeds or, in the case of a bond issue, from the Project Fund previously established with the bond proceeds.

The responsible staff position section of the Internal Controls Checklist for Construction and Debt Related Expenditures ("Checklist"), attached hereto, must be completed at the close of each new financing and submitted to County Administration and the Auditor-Controller. The completed Checklist will be maintained in the appropriate construction file.

INTERNAL CONTROLS CHECKLIST
FOR
CONSTRUCTION AND DEBT RELATED EXPENDITURES

Effective Date: October 24, 2017
Approved by Debt Advisory Committee

RESPONSIBILITIES DELEGATED PURSUANT TO THE CONSTRUCTION AND DEBT RELATED EXPENDITURE VERIFICATION PROCEDURES (Exhibit "B" to the County of Butte Debt Guidelines and Procedures)	RESPONSIBLE DEPARTMENT	RESPONSIBLE STAFF POSITION
(a)		
(i) Verify the invoice complies with the contract terms		
(ii) Determine the work being invoiced has been satisfactorily completed and the charges are correct		
(iii) Initial the invoice indicating approval to pay		
(b)		
(i) Verify the invoice complies with the contract terms		
(ii) Verify sufficient funds have been appropriated and are available to make the payment		
(iii) Verify the remaining encumbered funds are sufficient to cover the invoice		
(c)		
(i) Review and approve the payment of the invoice		
(d)		
(i) Verify the invoice complies with the contract terms		
(e)		
(i) Provide copies of the approved invoice and supporting documentation to County Administration		
(f)	County Administration	
(i) Submit a disbursement request to the lender or		
(ii) Submit an itemization of the requested disbursement to the Treasurer-Tax Collector and Auditor-Controller,		
if required		
(g)		
(i) Prepare and submit the request for payment to the Auditor-Controller in accordance with the		
County's accounts payable procedures		
(h)	County Administration	
(i) In the case of an incoming wire of financing proceeds, provides the Auditor-Controller and the Treasure-		
Tax Collector the amount and date of the wire and the applicable coding on the prescribed ACH/Wire Transfer		
Form containing an authorizing signature		
(i)	Auditor-Controller	
(i) Verify the invoice has been approved for payment by the parties with legal authority		
(ii) Verify there are available appropriations for the payment		
(iii) Verify the invoice is from a legitimate company for which the County holds a current IRS Form W9		
(iv) Pay the invoice from the financing proceeds or from the Project Fund established with the bond proceeds, as		
applicable		

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County of Butte

Fund Balances Policy

County of Butte

Finance	Approval Date: Effective Date:
Fund Accounting	Review Date:
Fund Balances	Version: 1.0 Last Revision Date: 2/15/12

1. Purpose

To outline the policies and procedures adopted by the Board of Supervisors regarding provisions for identifying and classifying fund balances in accordance with Government Accounting Standards Board Statement 54.

2. Policy Scope

The policy is applicable to all governmental and proprietary funds of the county, dependent special districts and other agencies whose affairs and finances are under the supervision and control of the Board of Supervisors.

3. Policy

A. Fund Balances

1. To maintain the County's credit rating and meet seasonal cash flow shortfalls, economic downturns or a local disaster, the budget shall provide for an anticipated balance for general government and enterprise fund types.

2. Available Fund balance will be maintained to provide the County with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.

3. A designation for debt service that is equal to one year of debt service payments will be maintained. Effective the fiscal year ending June 30, 2013, this category will be in the Assigned Fund Balance.

B. Classification of Fund Balances

1. The Auditor-Controller is authorized to evaluate existing fund balance classifications (designations, reserves and unreserved/undesignated) and reclassify them in accordance with GASB Statement 54.

2. For funds that are determined to fall within the "Committed Fund Balance" classification, the Board of Supervisors shall adopt a resolution before fiscal year-end to establish or re-establish the specified purpose for the funds. Committed Fund Balances must be re-established annually before fiscal year-end.

GASB 54 Classifications	
Nonspendable Fund Balance	Not in spendable form; legally or contractually required to be maintained intact
Restricted Fund Balance	Constrained for a specific purpose; changed only with consent of outside party; legally enforceable
Committed Fund Balance	Established by Board of Supervisors for specified purpose (by resolution); must be established before fiscal year-end; requires Board action to appropriate; commitment survives budget
Assigned Fund Balance	Established by governing body or delegated representative; less formal (minutes, memo, purchase order, budget document); may be established after fiscal year-end; may expire at any time by any action
Unassigned Fund Balance	Residual fund balance after deducting non-spendable, restricted, committed and assigned fund balance

C. Funding Flow Assumptions

This policy considers restricted amounts to be spent before unrestricted fund balance when an expenditure is incurred and appropriated for purposes for which both restricted and unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed, assigned then unassigned amounts in that order will be spent when an expenditure is incurred for a purpose for which amounts in any of those unrestricted fund balance classifications could be used.

4. Responsibilities

The County Administrative Officer and Auditor-Controller are hereby authorized and directed to implement the Policy hereby established.

5. Definitions

Appropriation for Contingencies – An amount appropriated for unanticipated expenditure requirements.

Fiscal Year – July 1, 20XX – June 30, 20XX

General Fund – The main operating fund providing general county-wide services.

Nonspendable Fund Balance – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – amounts externally imposed by creditors (debt covenants), grants, contributors, laws, enabling legislation, or regulations of other governments.

Committed Fund Balance – amounts used for a specific purpose pursuant to constraints imposed by formal action of the County's highest level of decision-making authority.

Assigned Fund Balance – amounts that are constrained by the government's intent to use resources for specific purposes, but are neither restricted nor committed.

Unassigned Fund Balance – amounts that are not reported in any other classification. Unassigned amounts are available for any purpose.

6. Procedure

The Auditor-Controller shall develop and maintain procedures to assist in the implementation of the Policy hereby established.

7. Background

Government entities should maintain a prudent level of financial resources to protect against reducing service levels or incurring debt because of temporary revenue shortfalls or unpredicted one-time expenditures. To this end, the Board adopted a *Fund Balance Reserve Policy for the General Fund*, on January 26, 2010. In addition to the General Reserve, fund balances in the General Fund and non-General Fund budgetary units are comprised of classifications and balances of monies set-aside for a specific purpose, or funds that are unrestricted and available for use as circumstances dictate, including being used each year to balance the budget.

Currently the fund balance is divided into three basic classifications for accounting and tracking purposes: designations, reserves and unreserved/undesignated. The unreserved/undesignated fund balance is the official title for what has previously been described as "available fund balance" in the County of Butte's budget reports and discussions and is available for those uses the Board of Supervisors deems necessary. Reserves are legally restricted funds established for a future specific use and are not available for general appropriation. Designations have been set-aside by the Board of Supervisors for a specific purpose.

The Government Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, to become effective for financial statements with periods beginning after June 15, 2010 (Statement 54). Statement 54 is designed to improve financial reporting by establishing fund balance classifications that are easier to understand and apply. Basically, a hierarchy has been established clarifying the constraints that govern how a government entity can use amounts reported as fund balance. Statement 54 establishes the following five new fund balance classifications: Nonspendable, Restricted, Committed, Assigned and Unassigned.

A Nonspendable Fund Balance includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact (such as inventories or prepaid amounts).

A **Restricted Fund Balance** includes amounts that can be spent only for specific purposes stipulated by external parties (such as creditors, grant providers or contributors) or by law.

A **Committed Fund Balance** includes amounts that can be used only for the specific purpose determined by the Board of Supervisors. Commitments may be changed or lifted only by the Board of Supervisors taking the same formal action that imposed the constraint originally. The formal action must occur prior to the end of the reporting period. The amount which will be subject to the constraint may be determined in the subsequent period.

An **Assigned Fund Balance** is comprised of amounts intended to be used by the government entity for specific purposes that are neither restricted nor committed. Intent can be expressed by the Board of Supervisors or by an official or body to which the Board delegates the authority. Assigned fund balance can be used to eliminate a projected budgetary deficit in the subsequent year's budget.

An **Unassigned Fund Balance** is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

County of Butte

General Fund Reserve Policy

Butte County Administration

General Fund Reserve Policy	Effective Date: 5/9/2017	Version 2.0
Approval Date: 5/9/2017	Last Revision Date: 1/26/2010	

PURPOSE

Establish a General Fund Reserve Policy.

POLICY SCOPE

This Policy sets forth the parameters and funding methods the County may utilize to establish and maintain an adequate General Fund Reserve and Appropriation for Contingencies.

BACKGROUND

The maintenance of a General Fund Reserve is a sound business practice to protect the fiscal solvency of Butte County. A prudent General Fund Reserve level is a critical measure of a government's ability to manage risk. Risk comes in many forms, often unforeseen – a reserve fund is a key tool in meeting the financial challenges of such unforeseen occurrences.

Support for the establishment of a General Fund Reserve can be found in California Government Code, as well as recommendations from the Government Finance Officers Association (GFOA) and various credit rating agencies.

Government code section 29085 states: "The budget may contain reserves, including a general reserve and designations in such amounts as the board deems sufficient." The Code is very specific and clear, however, on the establishment and accessibility of a general reserve, as stated in Government Code section 29086: "Except in cases of a legally declared emergency…the general reserve may only be established, canceled, increased or decreased at the time of adopting the budget….."

The GFOA recommends, at a minimum, that general-purposes governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of general fund operating revenues or general fund operating expenditures. A stable, reasonable level of reserved and unreserved fund balance denotes financial stability and strong fiscal management, both important factors considered by rating agencies in evaluating the credit worthiness of the County. The General Fund Reserve Policy and General Fund Appropriation for Contingencies establishes guidelines to ensure the County maintains an unrestricted fund balance in line with GFOA recommendations.

A General Fund Reserve Policy is important in order to ensure that the County is effectively able to:

A. Respond strategically and responsibly to the challenges of a changing fiscal environment;

B. Mitigate operational impacts during difficult economic times;

C. Provide flexibility to the Board of Supervisors for thoughtful reaction to State fiscal or legislative actions that reduce County revenues or increase County costs;

D. Maintain adequate cash balances;

E. Manage unanticipated costs occurring on a one-time basis, such as natural disasters; and

F. Demonstrate fiscal soundness and continued creditworthiness to bond rating agencies and the financial community.

POLICY

A. General Fund Reserve and Appropriation for Contingencies – It is the goal of the Board of Supervisors to build a combined General Fund Reserve and General Fund Appropriation for Contingencies of ten to fifteen percent of the prior year's actual General Fund operating expenditures, with up to five percent of the prior year's actual General Fund operating expenditures in the General Fund Appropriation for Contingencies.

    1. If the combined General Fund Reserve and Appropriation for Contingencies for the upcoming budget year is less than fifteen percent of the prior year's actual General Fund operating expenditures, the Board of Supervisors will consider increasing the General Fund Reserve and/or Appropriation for Contingencies during the public hearing on the Recommended Budget in the following circumstances:

        a. When projected General Fund tax revenue receipts for the upcoming fiscal year are expected to increase by more than four percent (4%) over the current (closing) fiscal year.

        b. When one-time, unanticipated, discretionary revenues exceeding $500,000 with no offsetting expenditures were received over the current (closing) fiscal year.

        c. When the County Auditor-Controller and the Chief Administrative Officer determine additional working capital is needed in the General Fund for cash flow of the County, the Board of Supervisors will consider contributing the calculated amount needed to cover cash flow demands to the General Fund Appropriation for Contingencies.

2. During the public hearing on the Recommended Budget, in response to a fiscal emergency or as part of a multiyear plan to adjust to revenue losses, the Board of Supervisors may consider reducing the amount set aside in the General Fund Reserve.

3. During the public hearing on the Recommended Budget or at any properly noticed public meeting the Board of Supervisors may consider reducing the amount set aside in the General Fund Appropriation for Contingencies.

B. Excess Fund Balance Available – When adopting the annual budget for the General Fund, the Board of Supervisors will provide direction to the County Auditor-Controller to reconcile the difference between the General Fund's estimated and actual Fund Balance Available at the beginning of the budget period. In those instances when the actual Fund Balance Available is less than estimated, the County Auditor-Controller may be directed to reduce the General Fund Appropriation for Contingencies and/or General Fund Reserves. In those instances when the actual Fund Balance Available is greater than estimated, the County Auditor-Controller may be given specific direction, generally within the following parameters:

1. The first priority for Excess General Fund Balance Available at the beginning of each fiscal year, if any, is to increase the General Fund Reserve and/or General Fund Appropriation for Contingencies to ensure it is maintained within the recommended range of ten to fifteen percent of the prior year's General Fund operating expenditures.

2. The second priority for Excess General Fund Balance Available at the beginning of each fiscal year, if any, is to dedicate excess fund balance for known and quantified unfunded liabilities or one-time unmet needs, including but not limited to the following:

   a. Employee pension plan contributions and pension obligation bond debt service

   b. Other post-employment benefits (retiree health)

   c. Unmet building or maintenance needs

   d. Accrued employee leave

C. Unreserved Fund Balance – The County will maintain sufficient fund balances in the General Fund to provide adequate working capital and to accommodate required adjustments to other reserve accounts, including advances to other funds. Appropriations or use of funds from Unreserved Fund Balances will require approval by the Board of Supervisors.

D. Other Assignments or Commitments of the General Fund – Establishment of these policies do not preclude the Board of Supervisors from setting aside additional funds for a specific project, program or capital item.

RESPONSIBILITIES

The County Administrative Officer and the County Auditor-Controller are hereby authorized and directed to implement the Policy hereby established when preparing the annual budget for each fiscal year. Additionally, the County Administrative Officer will initiate a review of the policy within 7 years of adoption. The review of the policy will include a review of best practices as well as a financial risk assessment.

DEFINITIONS

Appropriation for Contingencies – An amount appropriated for unanticipated expenditure requirements. Appropriation for Contingencies is adopted as part of the Budget with a majority vote of the Board of Supervisors and can be used during the course of a fiscal year with a $4/5^{th}$ vote of the Board of Supervisors transferring the appropriation to elsewhere in the budget. The Appropriation for Contingencies expires June 30^{th} of each fiscal year to be reestablished the following year.

Fund Balance Available – The amount of General Fund balance that is available for financing expenditures and other funding requirements after deducting non-spendable, restricted, committed and assigned fund balance. Also referred to as the unobligated or unassigned fund balance.

***Excess Fund Balance Available* –** The amount, if any, of actual General Fund balance that is available, after the close of fiscal year accounting, exceeding the estimated General Fund Balance Available used in the Recommended Budget. This difference, if any, is considered when finalizing the annual Adopted Budget.

Fund Balances – Fund balances represent the net assets of each fund. Net assets generally represent a fund's assets (cash, receivables, etc.) less its liabilities. Portions of a fund's balance may be non-spendable, restricted, assigned or committed for future expenditure as a result of County policy, terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions, which the County cannot unilaterally alter.

General Fund – The main operating fund providing general county-wide services.

General Fund Reserve – The portion of the General Fund balance assigned by the Board of Supervisors as the General Fund Reserve. It is not available for appropriation during the fiscal year except in cases of a legally declared emergency, as the funds are held for future years in anticipation of limited duration budget shortfalls and to ensure sufficient working capital for cash flow. Government Code Section 29086 provides as follows, "Except in cases of a legally declared emergency…the general reserve may only be established, canceled, increased or decreased at the time of adopting the budget…" The General Fund Reserve is not a budgetary appropriation and so does not expire at year end. It can be added to or reduced with each year's budget.

Unrestricted Fund Balance – The portion of the General Fund balance made up of the committed, assigned and available (unassigned) fund balance. The unrestricted fund balance is not restricted by law for a specific purpose.

County of Butte

Pension Obligation Bond Payment Strategy Summary

Butte County Administration

Pension Obligation Bond Payment Strategy Summary - May 2019
Approval Date: 01/10/2012

BACKGROUND

In 2004 the County of Butte issued pension obligation bonds (POBs) in three series (Series A, B and C) to save future interest costs associated with the County's employee pension obligations. Prior to the bond issues, the California Public Employee Retirement System (CalPERS) was charging Butte County 8.25% per year for approximately $50 million in unfunded pension plan liabilities.

The County's POB 2004 Series A issued for $28.02 million are taxable fixed rate bonds with annual principal payments, which started on June 1, 2014 and continue through June 1, 2034. The bonds have an interest rate of 5.408% through fiscal year 2023-24 and an interest rate of 6.076% from fiscal year 2024-25 through maturity.

The County's POB 2004 Series B issued for $21.875 million are taxable variable rate bonds with annual mandatory sinking fund principal payments, which started on June 1, 2014 and continue through June 1, 2034. The bonds' variable rate is set monthly at London Interbank Overnight Rate (LIBOR) plus 30 basis points.

The County's POB 2004 Series C was a short-term bond series that was paid in full on September 1, 2007.

The County issued POBs in 2004 to save future costs that are ultimately charged to various County departmental budgets as a percentage of payroll. CalPERS was charging the County a higher interest cost than the interest cost that was available in the municipal bond market at that time.

In late 2011, with bond principal payments approaching, and annual debt service expected to increase over time, the Finance Work Team comprised of seven County department heads reviewed the POB obligations, payment management to date, and financing options with assistance from KNN Public Finance (KNN), a municipal bond financial advisor. KNN was hired to help answer technical and bond market questions to fine-tune the County's strategy.

Subsequently, the Finance Work Team asked KNN to develop a payment scenario with a five year ramp up of payroll collections to get to a more sustainable department budget collection rate over the remainder of the debt period.

PENSION BOND PAYMENT STRATEGY

On January 10, 2012 at the recommendation of the Finance Work Team and KNN, the Board adopted a payment strategy for the POBs that maintained a consistent percent of payroll charges to department budgets with a five year ramp up to approximately 3% of payroll. The strategy also included a provision for the County to annually revisit the strategy to update the balances and rates and determine if a pre-payment plan for Series B has become advantageous. The initial ramp up and projected payroll collections rates were as follows:

Projected Payroll Collection Rates

Fiscal Year	Total % of Payroll	Miscellaneous Rate	Safety Rate
2012-2013	2.00%	1.70%	3.41%
2013-2014	2.25%	1.89%	4.06%
2014-2015	2.50%	2.10%	4.51%
2015-2016	2.75%	2.31%	4.96%
2016-2017	3.08%	2.58%	5.54%
(through 2034)			

Note: Every year the amount collected as a percentage of payroll will be significantly higher for public safety plan employees than for miscellaneous plan employees because of the significant difference in CalPERS unfunded pension liabilities paid off in 2004 for the two pension plans when the POBs were issued. The payroll collection rates in fiscal year 2011-2012 are 1.43% for miscellaneous payroll and 3.07% for safety payroll.

CURRENT STATUS

The implementation of the Pension Obligation Bond Payment Strategy has continued since it was adopted in 2012. Annually staff provides KNN current balances and data so KNN can update the strategy using current and projected interest rates. Due to the historically low variable interest rate since 2012, payroll collection rates are lower than originally projected. The projected fiscal year

2019-20 collection rate is 2.2% (miscellaneous 1.87%; safety 3.79%). Additionally each year, with the assistance of KNN, staff reviews options to pre-pay and/or restructure Series B to a fixed interest rate.

County of Butte

Pension Strategy

PURPOSE

The following Pension Strategy (Strategy) was developed in response to steadily increasing required contributions to CalPERS for the County's Miscellaneous and Safety Pension Plans. The required contributions are expected to increase through fiscal year (FY) 2030-31. The goal of the Strategy is to reduce the peak CalPERS rates by setting aside additional funds now that can be used to offset future CalPERS payments.

BACKGROUND

The County contracts with CalPERS to provide two pension benefit plans for County employees. The first is for safety employees and includes deputy sheriffs, correctional deputies, probation officers and district attorney investigators. The second is for miscellaneous employees and includes all non-safety County employees. The retirement benefits are funded through a combination of employer contributions (26%), employee contributions (13%), and investment earnings (61%). Changes to CalPERS pension investment earnings projections, along with a number of years with poor earnings, and recent actuarial adjustments to mortality rates have resulted in increasing pension costs that are expected to continue for the next 12 years.

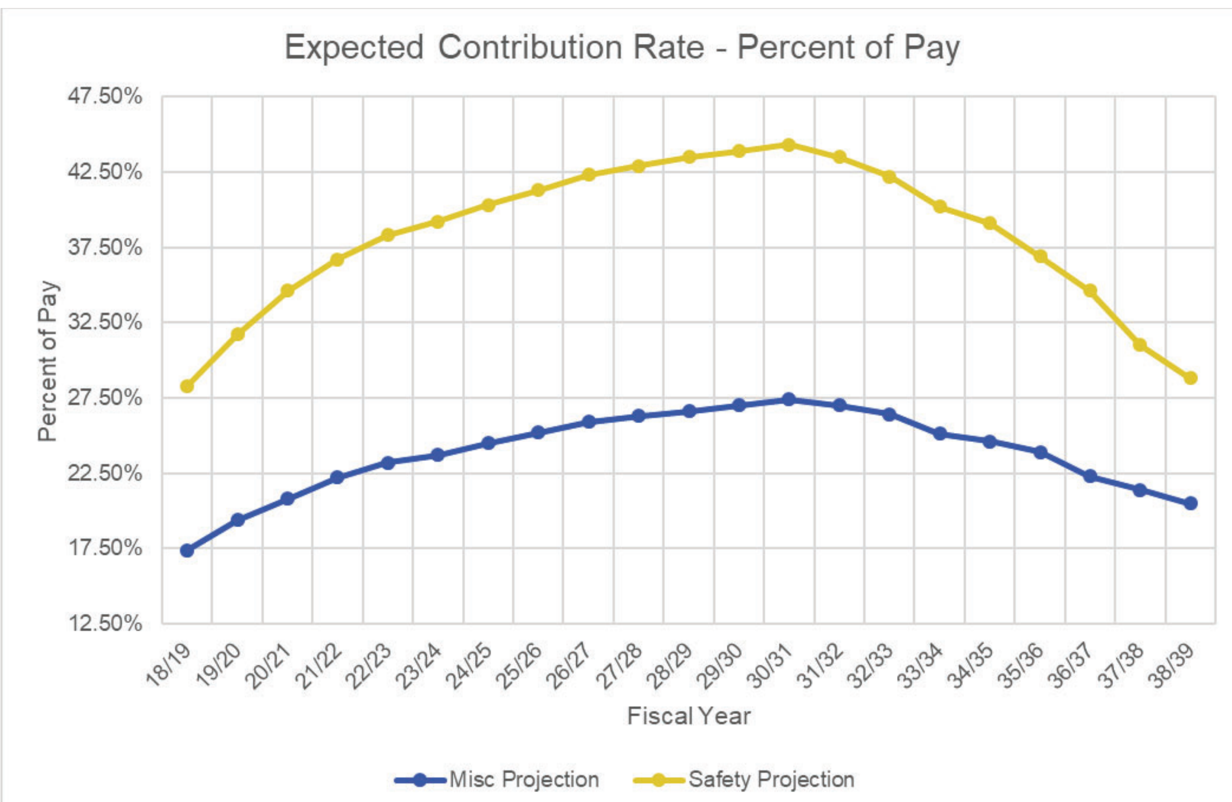

Figure 1 – Expected Contributions

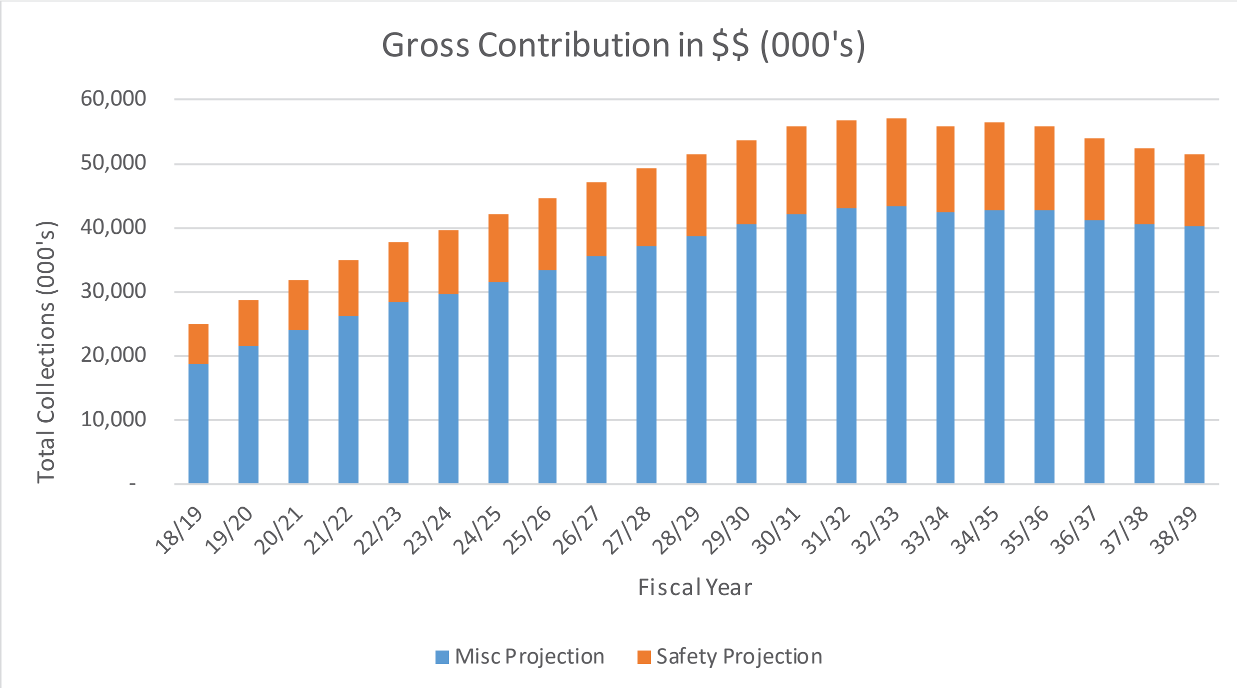

Figure 2 – Expected Contributions

Bartel and Associates (Bartel), an actuarial firm, performed an analysis of the County's pension plans and prepared projections for FY 2019-20 through FY 2038-39. The analysis indicates steady increases in the expected contribution rate, as a percent of pay, through FY 2030-31 for both the Miscellaneous and the Safety Plans. Figure 1 above shows the results of the Bartel analysis expressed as a percent of pay peaking in FY 2030-31 at 27.4% for the Miscellaneous Plan and 44.3% for the Safety Plan, a 57% increase. Figure 2 above shows the results expressed in gross dollars. In gross dollars, the contribution would more than double, from $24.9 million in FY 2018-19 to $57 million in FY 2030-31 due to compounding of the assumed payroll growth over that period.

Bartel presented two options to reduce total costs by dedicating additional resources to pension costs for the next few years. Ultimately, the Finance Work Team recommended committing those additional resources to a Section 115 Trust as part of the overall Strategy to reduce pension costs. The Bartel analysis provides for gross savings of more than $3.8 million through FY 2032-33 (*Table 1 – Gross Savings*).

SAVINGS (in 000's)	Misc Projection	Safety Projection
TRUST		
Gross $ Savings	$ 3,363	$ 533
Present Value Savings @ 3%	$ 1,031	$ 160

Table 1 – Gross Savings

Part I – Establish the Pension Trust

The County will establish two (2) Section 115 Trust Funds (Trusts) to accumulate funds with the goal of stabilizing future rates; one for the Miscellaneous Plan and one for the Safety Plan.

Part II – Funding the Trust

A. Payroll Collections

The County will accumulate funds by collecting additional amounts from Departmental budgets through the payroll process. The additional funds will be dedicated to the Strategy and will be collected as a percentage of pay in the same manner as regular CalPERS contributions. The additional contributions will be 0.5% percent of pay beginning in fiscal year 2019-20 and increase to 1.0% in fiscal years 2020-21 through 2025-26. The Strategy calls for the accumulated funds to be used in future years to offset the CalPERS increases and "flatten" the peak years (*see figures 3 and 4 – Payroll Collection Rates*).

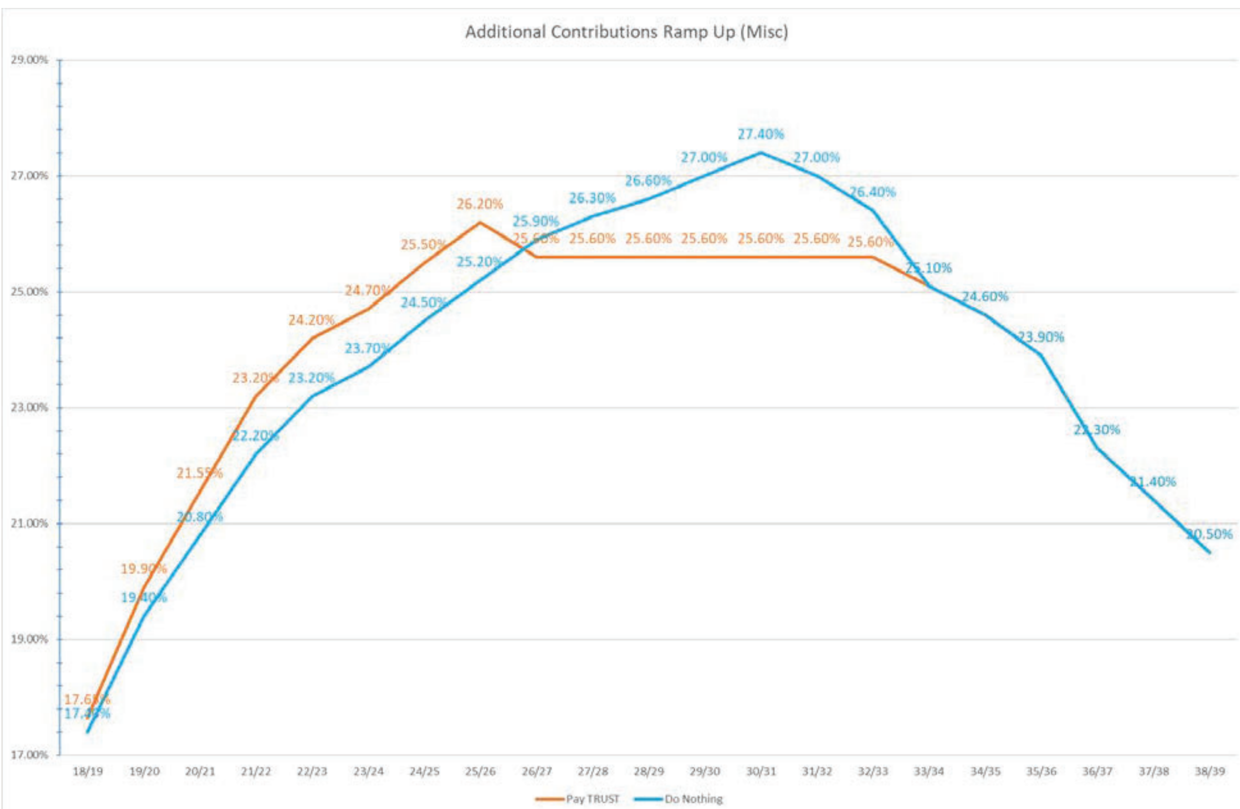

Figure 3 – Payroll Collection Rates (Misc)

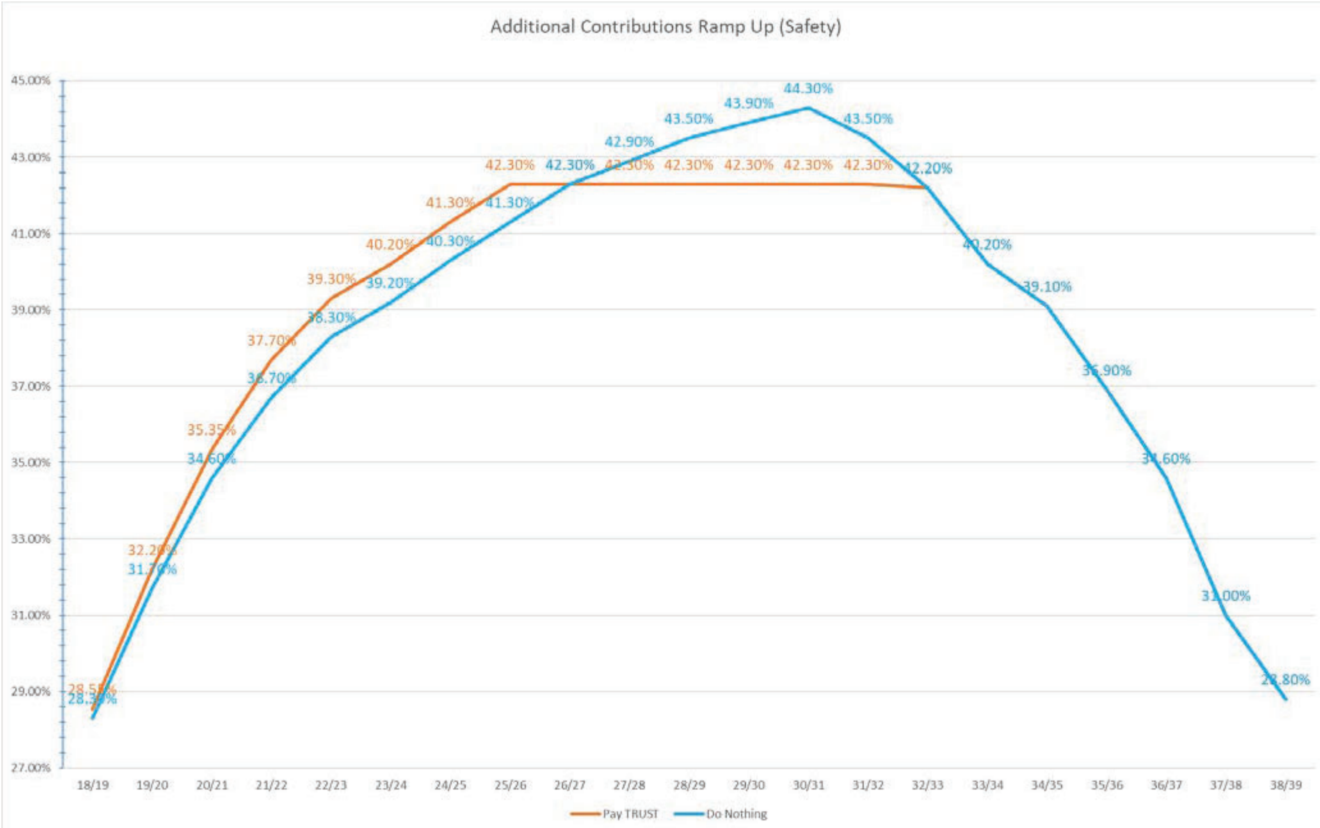

Figure 4 – Payroll Collection Rates (Safety)

B. *Prepayment Savings*

The County prepaid its required Unfunded Actuarial Liability (UAL) payment in fiscal years 2017-18 and 2018-19 due to the discount offered by CalPERS. Prepaying each year resulted in net savings of approximately $350,000 per year. The required UAL payment was converted into an estimated percentage of pay and collected from departments throughout the year through the payroll process. The estimated percentage resulted in slightly higher collections than required to make the full payment. The savings and excess collections will be dedicated to the Trusts.

Future savings related to the prepayment of the UAL and/or excess collections shall also be directed to the Trusts.

C. *Consider Dedication of Available Funds to Safety Trust*

The overall Pension Strategy focuses on collections from the payroll process to accumulate funds. Consideration shall be given to the application of any available and appropriate funds to the Safety Plan segment of the Strategy. Any additional funds applied to the Safety Plan measurably reduce the peak rates paid by the County in the future.

D. Charges to Other Agencies, State and federal programs, and User Fees

The Strategy is designed to achieve approval of the State Controller's Office so that State and federal programs pay their fair share of these costs. Additionally, County Departments contracting to provide services to other entities or the public shall include these charges in the fees for services provided.

E. Reevaluation during Budget

The Strategy will be reevaluated annually as part of the annual budget process, including review of CalPERS and Trust results based on actual rates and updated projections, and identifying additional funds that may be dedicated to the Safety Plan within the Strategy.

Part III – Use of Trust Funds

A. Assets contributed to the Trusts may only be withdrawn
   i. To pay pension costs; and
   ii. Upon approval by the Board of Supervisors.
B. Based upon the 2018 analysis by Bartel, the County expects to begin using funds accumulated in the Trusts to offset CalPERS costs starting in FY 2025-26 and end in FY 2032-33.

County of Butte

Teeter Plan Policy

PURPOSE

To establish a policy related to the management of the Alternative Method of Distribution of Tax Levies, known as the Teeter Plan, including meeting the requirements of applicable State law, accounting guidance, fiscal transparency and prudent financial planning.

The Alternative Method of Distribution of Tax Levies is commonly referred to as the Teeter Plan, named after the Contra Costa Auditor, Desmond Teeter, who developed it in 1949. The Teeter Plan allows the County to allocate 100% of billed assessments, secured, utility and/or supplemental property tax revenues to jurisdictions within the County. The County advances the revenue to local agencies and retains the eventual delinquent tax payments along with the related penalties and interest. This plan provides local agencies with more consistent and predictable revenues and, over the long term, increases County revenues due to the penalties and interest received on the delinquent bills.

POLICY SCOPE

This policy applies to all aspects of the Teeter Plan as carried out by the Auditor-Controller, Treasurer-Tax Collector and Chief Administrative Officer including, but not limited to, the management of the Tax Resource Fund and Tax Loss Reserve Fund, as well as the transactions between these two Funds and the County General Fund.

POLICY

A. Compliance with State Law and Guidance

The County shall adhere to Revenue and Taxation Code related to the alternative procedure for the distribution of property tax levies, specifically, Revenue and Taxation Code §4701 *et seq*, the County Tax Collectors' Reference Manual issued by the State Controller, and the Accounting Standards and Procedures for Counties issued by the State Controller.

B. Tax Resource Fund

The Tax Resource Fund shall be used to control the tax charge receivable, collections and distributions, also referred to as the buyout. The balance in the Tax Resource Fund is used to pay taxing entities the difference between tax revenues received and tax revenues due. The Tax Resource Fund shall receive payments for prior secured collections, and redemption collections, including penalties and interest earned on apportioned taxes, to fund the buyout.

When the annual buyout is smaller than the annual receipts, the General Fund shall receive the excess funds.

When the annual buyout is larger than the annual receipts, funds shall be transferred from the Tax Loss Reserve Fund so long as the balance in the Tax Loss Reserve Fund meets the minimum requirements of Revenue and Taxation Code §4701 *et seq* and this policy.

If the buyout were to be larger than both the receipts in the Tax Resource Fund and the balances available for transfer from the Tax Loss Reserve Fund, the County is responsible for making up the difference using other resources.

C. Tax Loss Reserve Fund

The Tax Loss Reserve Fund is required for any county that adopts the Teeter Plan and must be used to fund any losses the County experiences when tax defaulted properties are sold at auction. This occurs when a property sells at auction for less than the outstanding balance (total taxes plus penalties and interest) due. Revenue and Taxation Code §4701 *et seq* requires that the Tax Loss Reserve Fund maintain a balance of either 1% of assessed valuation or 25% of the total delinquent secured taxes for participating entities in the County to ensure there are funds available for any losses, which is subject to change annually by the Board of Supervisors. Butte County has opted to use the 1% of assessed value method.

In addition to these mandated uses, Butte County has historically opted to use the Tax Loss Reserve Fund more broadly to fund tax related losses, including changes to prior year apportionments as a result of audits, lawsuits or similar issues. This practice protects the County General Fund from experiencing large, unpredictable revenue adjustments.

In order to provide adequate reserves to protect the County from property tax related losses, the Tax Loss Reserve Fund shall maintain a balance of 1%-3% of assessed valuation as follows:

i. At the end of each fiscal year, the Tax Loss Reserve Fund shall have a balance representing 3% of current assessed valuation unless:

- The Tax Resource Fund did not have adequate funds to support the annual property tax buyout. In this case, available funds shall have been transferred from the Tax Loss Reserve Fund to the Tax Resource

Fund (leaving the required minimum reserve of 1% of assessed valuation) to cover the buyout;

- There are not adequate funds available in the Tax Loss Reserve Fund to support a 3% reserve, but funds are available to meet the statutory requirement of a 1% reserve.

ii. At the end of the fiscal year, any funds in excess of the reserve amount shall be transferred to the County General Fund.

D. Taxes and Assessments subject to the Teeter Plan

All defaulted secured taxes and assessments shall be part of the Teeter Plan per Resolution 93-156. Nuisance abatement, Communities Facilities Districts (Mello-Roos), 1915 Act Bonds, other direct charges, PACE tax assessments and other assessments are not included due to their discretionary nature or ineligibility in accordance with Revenue and Taxation Code §4701 *et seq*.

E. Responsibilities

The Auditor-Controller or designee, in collaboration with the Treasurer-Tax Collector or designee and Chief Administrative Officer or designee, shall submit a report annually to the Board of Supervisors regarding the operation of the Teeter Plan for the fiscal year, including the annual buyout and available resources to fund the buyout, funds transferred to the General Fund, levels of reserves held in the Tax Loss Reserve Fund and all uses of the Tax Loss Reserve Fund.

<u>BACKGROUND</u>

A. In California, property tax revenue is collected by counties and distributed (or apportioned) to the appropriate taxing jurisdictions that levy the taxes under one of two possible methods.

i. Under the first method, the tax-levying entities receive the actual tax revenue collected in a particular year, which is typically less than the amount billed, and any delinquent taxes received in future years are then distributed to the tax-levying entities in the year during which they are received.

ii. The second method of property tax apportionment is known as the Teeter Plan and is established in Revenue and Taxation Code §4701 *et seq*. The object of this alternative procedure is to simplify the tax-levying and tax-apportioning process and to increase flexibility in the use of available cash resources. Under the Teeter Plan, the County apportions delinquent secured property taxes to tax-levying entities at 100% of the defaulted secured taxes and assessments billed rather than the actual monies collected. The jurisdictions, in turn, have more stable and reliable annual property tax revenues. The County then retains all future delinquent tax payments, including penalties and interest. This benefits the County because it ultimately receives a greater amount of revenue when compared to the first method.

B. The Butte County Board of Supervisors adopted Resolution 93-156 on October 12, 1993, which established the Teeter Plan as the method of property tax apportionment used in the County. In order to implement the plan, the Tax Resource Fund and Tax Loss Reserve Fund were established.

C. Since its adoption, the Teeter Plan has provided varying revenues to the General Fund; however, there had not been a formalization of the methodology for determining appropriate funding levels for the Tax Resource Fund and Tax Loss Reserve Fund. To meet the County's goals of maintaining appropriate levels of reserves and increased transparency for purposes and uses of Funds, development of a standard policy supported by prudent financial practices was necessary.

D. An analysis of the time period from Fiscal Year 2002-2003 through Fiscal Year 2013-2014 has demonstrated that the recommended best practice of maintaining funding levels above the statutory minimum of 1% is warranted, especially in consideration of the downturn in the economy during 2007-2010, which resulted in the need for substantial advances from the Tax Loss Reserve Fund to cover the Current Secured and Supplemental Tax Roll Buyouts for two years during that time period. Additionally, this analysis demonstrated that, had this policy been in place during the 2007-2010 economic downturn, the level of reserves recommended in this policy would have been adequate.