

GENERAL FUND CONTINGENCY APPROPRIATION POLICY

It has been observed the absence of a General Fund (GF) Contingency Appropriation policy has contributed to a widening gap between fiscal year budgeted appropriations and actual expenditures where budgeted appropriations at the account level exceed actual expenditures by more than five percent. It is also believed this situation is artificially increasing the GF structural budget deficit and impacts Board of Supervisors (BOS) financing decisions.

This General Fund Contingency Appropriation policy is designed to provide GF departments with the framework to tighten budgetary cost controls at the account level for the purpose of achieving a structurally balanced budget. The objective is to establish and maintain a GF contingency appropriation in each year's budget to accommodate unexpected increases in expenditures, which could not have reasonably been anticipated at the time the budget was developed. It is to provide a margin of safety and a source of temporary funding to GF departments so as to encourage an attitude of cost control within each account. It is further intended to promote collaborative teamwork in managing the finances of the County's GF.

This policy has five elements as noted below:

1. Scope
2. Compliance with applicable Government Code (GC) sections
3. Establishing the contingency appropriation
4. Use of the contingency appropriation
5. Replenishing the contingency appropriation

1.0 SCOPE

- 1.1 This policy applies only to the County's General Fund.
- 1.2 The contingency appropriation is not a contingency reserve. A contingency reserve is a budgetary provision setting aside a portion of the GF fund balance (carryover) for an identified purpose. It is not a financing source in the County's annual budget. A contingency appropriation is included in the County's annual budget and equals the amount which is set aside each year to be appropriated for that year's unforeseen expenditure requirements.

2.0 COMPLIANCE WITH APPLICABLE GOVERNMENT CODE SECTIONS

- 2.1 The County shall adhere to the County Budget Act (Act) which is referenced in GC 29000 through GC 29144, and is also included in Appendix B of the County Budget Guide (2010 Edition, Revision #1) issued by the California State Controller's Office. This policy is to be consistent with all provisions of the Act affecting appropriations for contingencies which are restated in this section. This section is provided as a summary only and not meant to be a full recitation of the County Budget Act or laws governing county budgets.

- 2.2 GC 29006: The adopted budget shall include, at a minimum, estimated or actual amounts by fund for ... (d) appropriations for contingencies.
- 2.3 GC 29084: The budget may contain an appropriation(s) for contingencies in such amounts as the BOS deems sufficient.
- 2.4 GC 29125: Transfers and revisions to appropriation for contingencies is made by formal action of the BOS, by a four-fifths vote.
- 2.5 GC 29126: For any appropriation in whole or in part that is not needed, the Board of Supervisors may cancel the unneeded appropriation and transfer the amount to appropriation for contingencies.

3.0 ESTABLISHING THE CONTINGENCY APPROPRIATION

- 3.1 Subject to BOS approval, the County will establish a GF contingency appropriation with each budget cycle using the guidelines provided in this section.
- 3.2 The amount of the GF contingency appropriation is targeted at between 3% and 5% of total GF appropriations (not including this GF contingency appropriation).
- 3.3 The GF contingency appropriation will be established and/or adjusted with each budget cycle, will be included as a separate department of the GF budget, and the balance left in the contingency appropriation will carryover from one budget cycle to the next, but may be reduced as needed to meet the budgetary requirements of the County.
- 3.4 The GF contingency appropriation cannot be more than the following for each budget year:
 - 3.4.1 Total GF funding sources
 - 3.4.2 Less all other GF appropriations
 - 3.4.3 Plus amounts available from GF unassigned fund balance.
- 3.5 In times of declining revenues and/or budget deficits, the BOS may temporarily eliminate or reduce the GF contingency appropriation until the fiscal crisis is resolved.
- 3.6 The amount of the contingency appropriation may be adjusted by 4/5ths vote of the BOS at any time during the fiscal year after the adoption of the County's final budget.

4.0 USE OF THE CONTINGENCY APPROPRIATION

- 4.1 Only GF departments may request use of the contingency appropriation.
- 4.2 The department initiates a request for use of the contingency appropriation by submitting an agenda transmittal through the County's agenda software program which must be reviewed by the CAO and the Finance Department prior to being placed on the Board's agenda.

- 4.3 The agenda transmittal must include a statement by the department justifying the use of the contingency appropriation.
- 4.4 Transfer from the contingency appropriation must be approved by the BOS with a 4/5ths vote prior to recording the requested transfer.
- 4.5 Use of the contingency appropriation is allowed for the following reasons and circumstances:
 - 4.5.1 Unforeseen expenditures that could not have been anticipated at the time the annual budget was adopted.
 - 4.5.2 When the department is impacted by legislative changes not known at the time of budget development and which has a negative impact on the department's expenditures (ie..increases expenditures).
 - 4.5.3 Increases in expenditures necessary to maintain current service levels.
 - 4.5.4 Economic events that increase vendor costs such as utility rate increases or an increase in a vendor's rates.
 - 4.5.5 Unanticipated operational changes.
- 4.6 Prior to requesting use of the contingency appropriation, the department must have:
 - 4.6.1 No unanticipated revenue that has not been appropriated.
 - 4.6.2 No other appropriations within its own budget which can be reallocated to cover the budget shortfall.
 - 4.6.3 No other appropriation available in another fund that it controls that can be legally applied to cover the budget shortfall.

5.0 REPLENISHING THE CONTINGENCY APPROPRIATION

- 5.1 Any contingency funds used within the GF during the fiscal year shall be replenished the following year, if sufficient funds are available, by use of the following:
 - 5.1.1 Realized savings determined by comparing actual expenditures for the fiscal year against the approved amended budget.
 - 5.1.2 From unanticipated revenues.
 - 5.1.3 From discretionary revenues realized in excess of the approved amended budget.
- 5.2 After the accounting records are closed and adjusted for the year, the CAO and the Finance Department may propose a final budget amendment to generally reduce budgeted appropriations to within five percent of actual expenditures and move the budget savings into the general fund appropriations account until the target level has been reached.