

LONG-TERM FINANCIAL POLICIES¹

The primary fiscal agents for the County - the Board of Supervisors, County Executive, Controller, Assessor, and Treasurer - have made public access to financial information a priority. The County's budget, budget information, Annual Comprehensive Financial Report (ACFR), and Popular Annual Financial Report (PAFR) are available on the County website, www.smcgov.org. Residents can look up the assessed value of their property or pay their property taxes online. Board meetings, including budget hearings, are broadcast via Zoom and streamed on the County website. Past meetings are posted online on the County website.

I. COUNTY RESERVES POLICY

The establishment and maintenance of sufficient reserves is reasonable and proper to manage potential volatility and/or reductions in state, federal and local funding.

The Board of Supervisors approved the County Reserves Policy in April 1999. The policy was developed by the County Executive and other fiscal officers to help reduce the negative impact on the County of economic uncertainty and potential losses of funding from other government agencies. The Board of Supervisors approved a revised policy on February 9, 2010. A revised County Reserves Policy is set forth herein as of Fiscal Year 2024-25 to ensure sufficient reserves within the General Fund and across County departments.

The County Reserves Policy establishes an overall minimum General Fund reserve requirement of 15 percent of County Net Appropriations which are inclusive of minimum requirements for Departmental Reserves (4%), Non-Departmental Reserves (6%) and General Fund appropriation for Contingencies (5%), and provides guidelines for the use of these funds. For purposes of the County Reserves Policy, the term "Net Appropriations" means Gross Appropriations plus Intrafund Transfers. The Net Appropriation is used when summing the County General Fund budget to eliminate double budgeting of expenditures reimbursed by other General Fund departments which are also included in Gross Appropriations. Net County Costs means Total Requirements less Total Sources. This figure represents a budget unit's appropriation that is financed by General Fund revenues in Non-Departmental Services, such as property taxes, sales taxes, and interest earnings.

Fund Balance and Reserves are only used for one-time purposes or as part of a multi-year financial plan to balance the budget. The County avoids operating deficits that are created through dependency on one-time funding for ongoing expenditures. In the 2013 September Budget Hearings, the Board adopted a shift in the Fund Balance policy to a 50/50 Fund Balance split (see Fund Balance Policy at Section D below).

On January 31, 2011, the Board of Supervisors authorized the use of 50 percent of future Excess ERAF (Educational Revenue Augmentation Fund) proceeds for ongoing purposes. The current

¹ Capitalized terms not defined herein are defined in the Glossary of Budget Terms

ERAF Reserves and 50 percent of future proceeds can only be used for one-time purposes as described in Section C5, under General Fund Non-Departmental Reserve Requirements.

A. GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT 54 HIERARCHY FOR RESERVE LEVELS

The 2011 San Mateo County Civil Grand Jury recommended that the San Mateo County Board of Supervisors revise the existing policy for specific levels of reserves using language consistent with the new Governmental Accounting Standards Board (GASB) Statement 54 hierarchy. That hierarchy is as follows:

Non-Spendable Fund Balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

Restricted Fund Balance – amounts constrained to specific purposes either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (i.e., legislation, resolution, ordinance, etc.).

Assigned Fund Balance – amounts a government intends to use for a specific purpose and are neither restricted nor committed. Intent can be expressed by (a) the governing body itself or (b) a body or official to which the governing body has delegated the authority to assign amounts to be used for a specific purpose.

Unassigned Fund Balance – amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund.

Committed, Assigned and Unassigned Fund Balance, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the government body itself, are termed unrestricted fund balance.

For the purposes of the County's Reserves Policy, only General Fund Reserves/Contingencies that fall under the Unassigned Fund Balance classification shall be counted towards the County's minimum Reserves requirements.

B. DEPARTMENTAL RESERVE REQUIREMENTS

1. Departmental Reserves: An appropriation category for departments to budget funds which are unexpended in previous years and/or unobligated in the current year and is inclusive of funds for contingencies. Funds budgeted in this category cannot be expended without approval from the Board of Supervisors.

2. Minimum Departmental Reserves Requirements – Departments shall maintain reserves (“Departmental Reserves”) at a minimum of four (4) percent of Net Appropriations for their department. Departmental Reserves will only be used for the following:

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- a. One-time emergencies;
- b. Unanticipated mid-year losses of funding;
- c. Short-term coverage of costs associated with unanticipated caseload increases; and
- d. Short-term coverage of costs to minimize employee lay-offs provided there is a long-term financial plan.

3. Departmental Reserves Replenishment Plan – Departments must obtain approval from the County Executive’s Office prior to using Departmental Reserves if such use puts the department in the position of falling below the Departmental Reserves requirement. Approval of Departmental Reserves below the four percent requirement is contingent upon review and approval by the County Executive’s Office of a multi-year financial plan that details how the department intends to replenish its Reserves to meet the four percent level within three years or a mutually agreed upon timeframe by the department and County Executive’s Office. Department plans must address the use of excess Fund Balance to prioritize the replenishment of Reserves. This plan will be reviewed annually at the budget meeting with the County Executive’s Office to determine if progress is being made to achieve the four percent level. Departments that are unable to demonstrate progress towards achieving the requirement shall be subject to enhanced fiscal oversight, including the requirement to provide quarterly budget updates to the County Executive’s Office.

3.1. **Special Procedures for Departmental Reserves below 2%**. In the event that a Department’s Reserves fall below 2% of Net Appropriations, the following measures (in addition to the requirements set forth in Section B(3)) shall apply:

- (a) The County Executive may rescind the delegation of authority to such Departments to approve contracts in the amount of \$200,000 or less, so that all such contracts must be submitted to the County Executive’s Office for review and approval prior to execution.
- (b) To the extent the County Executive’s Office makes funds available to the Department to meet Reserve or Fund Balance requirements or to otherwise cover an operating deficit, the Department shall confer with the County Executive’s Office to develop and commit to a plan to repay such funds over the course of five fiscal years.
- (c) The Department’s fiscal staff shall be required to report to the County Executive’s Office quarterly regarding the status of and progress on any repayment plan pursuant to Section B (3.1(b)) and the Departmental Reserves Replenishment Plan required under Section B (3).
- (d) In the event the Department has an operating deficit for two fiscal years over a period of five fiscal years, the County Executive’s Office may require for the following five fiscal years that (i) the Department’s fiscal staff report to and be directed by the County Executive’s Office with respect to the fiscal affairs of the Department; and (ii) the Department submit its proposed budgets to the County Executive’s Office for review and approval prior to submission of any requested budget amounts to the Board of Supervisors. The County Executive’s Office shall have authority to determine

and direct the amounts of County funds requested in such Department recommended budgets.

4. Calculation of the Four Percent Departmental Reserves Requirement – Net Appropriations will be the basis for calculating the minimum Departmental Reserve requirement. The County Executive may make exceptions on the basis of materiality of adjustment and impact on direct ongoing operations. Material/one-time grant funds that must be appropriated should be excluded from the Departmental Reserves requirement calculation. Revenue derived from service contracts that do not represent core departmental services will also receive consideration for exclusion, with final approval resting with the County Executive’s Office. With the exception of required grant matching funds, grants and service contracts will not be backfilled by the County’s General Fund should funding be eliminated or reduced. The determination of whether a department has satisfied the Departmental Reserve requirement will be made at the time that the final budget is formally adopted by the Board of Supervisors.

5. Guidelines for Fund Balance in Excess of Minimum Reserve Amount – Except to the extent governed by section 5.1 herein, Fund Balance generated in excess of the four percent minimum Departmental Reserves requirement can only be allocated to the following:

- a. Departmental Reserves for future one-time purposes;
- b. Purchase of Fixed Assets;
- c. Sinking fund for future replacement of assets;
- d. Deferred maintenance;
- e. One-time departmental projects;
- f. Reserve for audit disallowances;
- g. Local match for grants;
- h. Seed money for new departmental programs provided there is a plan that includes identification of future ongoing funding sources and outcome measures; and
- i. Short-term coverage of operational costs in order to maintain program integrity and prevent employee lay-offs in conjunction with sections one and two above.

5.1 Maximum Departmental Reserve and Fund Balance – To determine the percentage of a Department’s Fund Balance that can be allocated to one or more of the uses specified in Section 5(a)-(i), the Department must perform two calculations (listed below). Once these calculations are completed, Departments must use the below table to determine which of the two possible tiers (A or B below) applies to its excess Fund Balance for the fiscal year. These calculations must be performed at Mid-Year and Year End.

Calculation 1 (C1):

Divide the Department’s prior year Adopted Contingencies & Reserves by its prior year Net Appropriations to determine resulting percentage.

Calculation 2 (C2):

Divide the Department’s prior year Adopted Contingencies & Reserves by its prior year Net County Cost to determine resulting percentage.

		Calculation 1 (C1)		Calculation 2 (C2)		Department Retains
A)	IF	C1 less than 25%	AND	C2 less than 50%	THEN	50%
B)	IF	C1 greater than or equal to 25%	OR	C2 greater than or equal to 50%	THEN	0%

Departments must compare the resulting percentages from Calculation 1 and Calculation 2 to the respective conditions in Tier A. If **both** conditions are true under Tier A, the Department retains 50% of its Fund Balance above the 4% Departmental Reserve Requirement. The other 50% must be reallocated to Non-Departmental Services and/or such other fund as the County Executive Officer may direct in consultation with the Department.

If **one or neither** of the conditions in Tier A is met, the Department must compare the resulting percentages to the conditions in Tier B. If **either of the** conditions in Tier B are met, the Department returns 100% of its Fund Balance above the 4% Departmental Reserve Requirement to Non-Departmental Services and/or such other fund as the County Executive Officer may direct in consultation with the Department.

6. Deferred or Incomplete Projects – Unexpended one-time funds from deferred or incomplete projects, including grant funds, can be carried over to the next fiscal year at 100 percent of the amount not spent. These will be exempt from the 50/50 split (see Fund Balance Policy).

7. Service Departments and Non-General Fund Departments – Fund Balance generated by service departments shall be evaluated by the Service Charges Committee, including representatives from the County Fiscal Operating Committee, following the end of each fiscal year to recommend how they should be applied the following year. Application of funds will be done in a way that maximizes cost reimbursement through claiming and fairly allocates any impacts on the 2 CFR Part 200 (formally “A-87”) cost allocation plan.

Internal Service Funds can maintain Reserves balances for future purposes including, but not limited to, vehicle and equipment replacement costs and risk management claims.

As a goal, County Enterprise Funds, Special Revenue Funds, and Special Districts should generate revenue sufficient to support the full direct and indirect costs of these funds above and beyond General Fund subsidy or contribution levels approved by the Board.

C. GENERAL FUND NON-DEPARTMENTAL RESERVE REQUIREMENTS

- 1. General Fund Reserves** – Shall be maintained at a minimum of six (6) percent of total General Fund Net Appropriations in Non-Departmental Services for one-time purposes or as part of a multi-year financial plan to balance the County’s budget. The six percent requirement may include Excess Educational Revenue Augmentation Fund (ERAF) reserves. After Contingencies, the second priority for excess Fund Balance at the end of each fiscal year is to replenish this amount so that it is at or above the six percent level.
- 2. Appropriation for Contingencies** – Shall be maintained at five (5) percent of total General Fund Net Appropriations for one-time emergencies and economic uncertainties. In order to maintain the highest possible credit rating, the first priority for excess Fund Balance at the end of each fiscal year is to replenish this amount so that it is maintained at the five percent level.
- 3. Amounts in Excess of Above Requirements** – Fund Balance generated in excess of the above requirements, including Excess ERAF, can only be allocated or maintained as Reserves for the following one-time or short-term purposes:
 - a. Capital and technology improvements;
 - b. Reduction of unfunded liabilities, including Retirement and Retiree Health obligations;
 - c. Debt retirement;
 - d. Productivity enhancements;
 - e. Cost avoidance projects;
 - f. Litigation;
 - g. Local match for grants involving multiple departments;
 - h. Innovation and Entrepreneurial Fund – creates one-time and short-term incentives for team efforts that generate ongoing savings or revenues in new and creative ways; including one-time investments in infrastructure and other areas, with established parameters regarding payback periods and returns on investment;
 - j. Seed money for new programs involving multiple departments provided there is a plan that includes identification of future ongoing funding sources and outcome measures; and
 - j. Other purposes deemed to be fiscally prudent for the County as identified and recommended by the County Executive’s Office to the Board of Supervisors.

D. FUND BALANCE POLICY

- 1. Fund Balance** - Fund Balance is a funding source that represents three components: (1) carryover Fund Balance from the previous fiscal year; (2) additional revenue received in excess of estimated revenue or budgeted amounts in the current fiscal year; and (3) unspent appropriations and Reserves in the current fiscal year. Fund Balance can be set aside in Reserves or can also be appropriated for one-time or short-term purposes.
- 2. Guidelines** - The Board-approved County Reserves Policy recognizes Fund Balance and Reserves as one-time sources of funding and provides specific guidelines on reserves

Attachment A

requirements and appropriate uses of this funding. In calculating Fund Balance, the following guidelines should be used:

- General Fund Departments can retain 50 percent of year-end fund balances and 100 percent of unspent Contingencies and Reserves, except to the extent that Section B5.1 applies. Non-General Fund departments and zero Net County Cost General Fund departments can retain 100 percent of Fund Balances unless there is an agreement to do otherwise, except to the extent that Section B5.1 applies.
- The remaining 50 percent, except to the extent that Section B5.1 applies, of non-reserved departmental Fund Balance will go into General Fund Reserves and Contingencies or be appropriated for one-time items such as paydown of unfunded liabilities, countywide technology and capital improvement projects, or be appropriated to help balance the budget on a short-term basis.
- Unspent appropriations for information technology (IT) projects and other one-time special projects can be carried over by departments at 100 percent.
- Departments with negative Fund Balances are responsible for absorbing 100 percent of the shortfall.
- The County Reserves Policy requires General Fund departments to maintain a minimum Reserves amount equivalent to four percent of Net Appropriations.