A Tradition of Stewardship
A Commitment to Service

Napa County Annual Budget Policy Guidelines

Recommended by the
COUNTY EXECUTIVE OFFICE

January 28, 2025

1. Introduction and Background

The **Annual Budget Policy Guidelines** are intended to be used in conjunction with annual **5-Year Forecast** to guide the annual Recommended Budget, as well as the Mid-Year process.

The **Annual Budget Policy Guidelines** are intended to provide long-term strategies to allow the County to continue to provide services through periods of economic uncertainty and provide consistent application of sound financial principles. The Annual Budget Policy Guidelines are focused on the General Fund and certain related funds. As a long-term plan, the Annual Budget Policy Guidelines does not attempt to lay out a detailed blueprint for everything that will be done, but instead provides the roadmap to maintain financial stability while continuing essential services and allowing the flexibility necessary to respond to significant changes. These potential changes include altering political direction at the state and federal levels, natural disasters, and changes in local or global economics that may impact our community.

The Annual Budget Policy Guidelines have been modified to also provide specific direction to staff to develop the Recommended Budget for the next fiscal year. It provides enough detail to allow staff to adjust the expenditures in the Recommended Budget to the resources projected to be available. These policies also establish priorities should additional resources be available to address unmet needs.

The annual **5-Year Forecast** provides the Board with a representation of the General Fund discretionary revenue outlook, based on continuing the existing level of service and known variables. The figures provided in the 5-Year Forecast are high-level assumptions, and are intended to demonstrate general trends, and are not intended to be preliminary budget figures.

Policy Goals:

Pursue Operational Efficiencies: Combine, reorganize, or eliminate programs/processes to respond to changing needs or priorities. Identify lower priority programs that can be reduced or eliminated to free up resources to fund higher priority programs determined by a 4/5th vote of the Board of Supervisors. Carefully review and justify all expenditure line items to identify possible cost reductions.

Pursue New Revenues: Pursue new revenues and ensure fees charged for services are covering all costs incurred to provide those services. To the extent possible, any new revenues for programs receiving General Fund support shall be used to offset the cost of existing staff and programs, rather than funding new staff or programs. Requests for new positions will be considered only if the new positions are required as the result of a program mandate, are 100% funded by the new revenue source or are a Board priority. If new revenues are limited in duration and require additional staff, limited term positions shall be used.

Maximize the Board's Discretion: Except where the Board has previously made a decision to earmark revenues for a particular purpose, wherever legally possible, revenues should be treated as discretionary resources rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.

General Fund Policies (includes General Fund Departments and General Fund Contributions to non-General Fund Departments)

Maintain existing service levels: Departments receiving General Fund support shall prepare a budget that maintains the existing service level, any changes to service level must be noted for Board consideration and be aligned with the Board's priorities.

Maintain Sustainable Levels of County Contribution to Non-General Fund Departments or Programs:

a. HHSA Fund: It is the intent for the General Fund to support the existing service level, while the agency continues to maximize the leveraging of State and Federal Funds.
b. The calculated baseline General Fund contribution in the prior fiscal year shall be considered the baseline for calculating the following fiscal year General Fund contribution. The General Fund contribution should be the previous year's General Fund contribution plus the negotiated Cost of Living Adjustment (COLA).
c. IHSS: It is the intent for the General Fund to cover the statutory General Fund obligation to IHSS, with realignment covering the appropriate share.
d. Roads Fund: The General Fund contribution to the Roads fund will be evaluated to determine need based on new funding sources (Measure T and SB1), matching

requirements, and capacity of staff to complete projects. Currently, the County's Maintenance of Effort (MOE) obligation required by the state is $1,294,820.

1. The recommended baseline contribution for roads is the previous year's contribution plus COLA..
2. The baseline Vine Trail contribution is the previous year's contribution plus COLA. .

e. Fire Fund: The General Fund contribution shall be at minimum the previous year's General Fund contribution for operations and mitigation plus the negotiated Cost of Living Adjustment (COLA).

f. All Other Funds: Transfers to all other Non-General Fund Departments shall remain consistent with the previous year's transfer amount unless the transfer amount is based on salary and benefit, e.g., transfer to the Library Fund for the cost of the Library Director. If the transfer is based on salary and benefits, the General Fund contribution shall be increased to cover the increased cost of the applicable salary and benefits.

1. All transfers from the General Fund to Non-General Funds may be considered discretionary until and unless there is a legal obligation that restricts the funds to not be considered part of the General Fund. As such, based on Board Priority at a 4/5th vote, the Board with CEO recommendation, may choose to transfer these available funds for a one-time strategic use.

Fund Balance Assignments: All fund balance assignments shall be reviewed to determine if the need continues to exist or should be cancelled and reallocated to the General Fund's available fund balance or a different assignment.

General Fund Strengths and Challenges:

The General Fund is the primary operating fund with most of the discretionary revenue coming from property tax, sales tax, and transient occupancy tax (TOT).

Strengths:

The General Fund has remained strong through financial downturns and natural disasters, in part due to the prudent fiscal policies of the County. The Government Finance Officers Association (GFOA) has a "Best Practice" of maintaining at least two months of operating revenues or expenditures in fund balance. The Board shall maintain a General Reserve balance equivalent to 15% of combined operational appropriations for the General Fund and the Health and Human Services Fund.

Challenges:

The State has historically used counties as a significant part of budget "solutions" when resources are insufficient to fund state programs, even during times of growth. The Federal budget continues to be volatile.

The County will likely continue to face future fiscal challenges including:

- Continued and enhanced demand for services and a growing backlog of unmet needs in some areas, particularly fire prevention and capital needs;
- The impact of certain State programs such as CARE Court without sufficient dedicated revenue to fully cover the cost of those programs;
- Increased costs of core county services due to personnel costs; and
- Limited growth in discretionary, semi-discretionary and certain other revenues and the possibility of reduced state revenues for services the County provides on behalf of the state.

Philosophy, Guiding Principles and Key Policies:

As the only general-purpose local government covering a geographic area that includes cities and special districts – and with responsibility for both countywide and municipal services and for administering various programs on behalf of the state – counties are under pressure to be the funder or service provider of last resort when it comes to local interest and needs. Meanwhile, counties' ability to raise revenue is limited and more constrained by state mandates and requirements than many other local governments. Given this, a key premise of this Annual Budget Policy Guidelines is that:

The County cannot be all things to all people, nor can it be the "government of last resort." We recognize the County's role as a provider of services in keeping with the traditional county model. Although the County is a significant thread in a tapestry of federal, state and local government services, the County must rely on other government organizations, not-for-profit agencies, faith-based organizations, and family institutions to provide the spectrum of services our community requires.

Consequently, a major focus of this Plan is setting priorities for use of limited discretionary resources.

The following outlines the Guiding Principles and key Multi-Year Fiscal Policies that will guide the County in its efforts to ensure fiscal stability. As this is a long-term plan, these principles and policies are intentionally broad to maintain flexibility when there are economic or policy changes.

Guiding Principles

1. The County will maintain sufficient General Fund reserves and fund balance to provide adequate cash flow and avoid the need for short-term borrowing and to provide a hedge against an unanticipated fiscal crisis.

2. The County's emphasis will be on using General Fund discretionary resources to finance "core" County programs. These include traditional County programs or services that state law has made the responsibility of counties and that have historically been funded by local taxpayers.

3. In those cases where a significant need exists and Napa County has determined that the County will not assume responsibility for funding or service delivery, the County may opt to provide advocacy, coordination, technical assistance, and/or start-up financial assistance to aid others in the provision of those necessary services.

4. Except when necessary to respond to emergent or urgent situations, the County will not use one-time or limited duration revenue to fund ongoing operating costs. Instead, one-time or limited duration revenue will be used to meet non-recurring needs, like capital projects or paying down unfunded liabilities.

5. The County's goal is that, on average, **actual** annual General Fund operating expenditures will not exceed operating revenue.

6. In periods of fiscal distress it is appropriate to temporarily use fund balance and/or reserves to help balance the General Fund budget, but only if that use is part of a plan to achieve long-term structural balance, with the goal of achieving structural balance within 24 months.

7. Generally speaking, it is better to do a few things well than many things poorly. The County's goal is to provide high priority services in a professional, effective, and efficient manner, even if it means limiting the number or type of lower priority services provided.

8. The County administers a number of costly state programs that are primarily funded by state and federal dollars. Recognizing the limitations on the County's ability to increase discretionary revenues, in the event of a reduction in resources for these programs, the County's goal, to the extent legally possible, is to not backfill reductions in state and federal dollars with discretionary dollars.

9. To maintain as much flexibility as possible to address priority needs and deal with exigent circumstances, wherever legally possible, revenues are to be treated as discretionary resources, rather than dedicated to a particular program.

10. When charging for services or claiming federal or state revenues, the County's goal is to recover the full cost of services provided, including departmental and county overhead.

11. Generally, it is appropriate to use discretionary resources to fund programs or services that provide a broad public benefit. To the extent legally possible, programs or services that primarily benefit a smaller sub-group should be paid for with user fees or assessments.

12. The County provides countywide services to people who live in all areas of the County and municipal services to residents of the unincorporated area. Because city residents already pay taxes or fees to their cities for municipal services, it is important to ensure that city residents do not subsidize the cost of providing services to residents of the unincorporated area.

13. The County has a fiduciary responsibility to the taxpayers to ensure that public funds are spent only to achieve an appropriate public purpose and that any expenditure of public funds incorporates appropriate control and accountability measures to ensure that the public purpose is being achieved.

14. One-time resources will be spent on one-time expenditures. Revenues which have been received for multiple consecutive years may be treated as on-going revenue.

Key Multi-Year Fiscal Policies:

1. General Reserve Policy: Maintain a General Reserve balance equal to 15% of General Fund and Health and Human Services Fund appropriations (not including the Disaster Response and Recovery, any transfer to the Accumulated Capital Outlay Fund, the General Fund contribution to the Health and Human Services Fund and the General Fund Contribution to Roads and the Fire Fund). The General Reserve is to be maintained at this level, except in the case of a dire emergency or declared natural disaster.

2. Once the General Reserve requirement is met, and after evaluating all existing and new Assignments, evaluate any remaining General Fund sources to reduce long-term liabilities, as identified in the annual budget policies. Additional Board Priorities may be considered for funding with CEO Recommendation and a 4/5th vote.

3. After evaluating long-term liabilities, consider transferring unappropriated General Fund discretionary resources to the Capital Improvement-Accumulated Capital Outlay (ACO) Fund to be retained to address unmet capital needs. In addition to funding the ACO Fund, select Board Priorities may be considered for funding with CEO Recommendation and a 4/5th vote.

Resource Allocation Strategy:

The Resource Allocation Strategy should prioritize those services that are to be funded primarily by the General Fund (and discretionary resources) over those services that are to be funded primarily by special revenue funds or other funding mechanisms. Priority shall be given to fully funding existing programs and existing infrastructure.

Outside funding sources:

<u>New or Enhanced Discretionary Programs</u>: Departments shall not propose new or enhanced programs unless those programs are fully funded (including overhead costs) or if the program is required to fulfill a legal mandate. Departments shall not propose new or enhanced programs using one time revenue that may create an ongoing net county cost. Requests must support the Board priorities will be evaluated by the County Executive Office to determine if the increase is financially viable and sustainable.

Funding can be accomplished by 1) a grant or other dedicated revenue source in the current and future years, 2) being included in the planning and implementation of a major capital project, or 3) reallocating resources from a lower priority program to a higher priority program in accordance with the following criteria:

- The investment targets: (a) accountability and regulatory compliance issues; or (b) critical public health and safety needs;
- The request is justified in terms of workload, service demand (include an analysis of the service level impact), and the efficient use of other resources in the relevant department;
- The investment is needed to address a significant County liability; or
- The need shall be sufficiently critical to justify the request.

<u>State and Federal Funding Impacts:</u>
For programs where State or Federal funding has been reduced or eliminated, the County shall not backfill this loss from General Fund sources unless mandated, or the Board of Supervisors has determined the program is a local priority as determined by a 4/5th vote.
If Napa County receives additional State and Federal funding, in support of Napa County's response to emergencies, the funding shall be allocated to the following categories, in no particular order:

- replenish strategic reserves to policy levels
- emergency response, recovery, and planning
- maintain service levels
- reinstate any payments addressing long-term liabilities that were diverted due to emergencies

<u>New Grants</u>: As required by Board Policy Part I, Section 8A, Grants and Revenue Agreements Policy, grant requests shall be sent to the County Executive Office using the

questionnaire attached to the Policy. Budget requests based on new grant funding shall not be included in the Recommended Budget unless the County has received official notification of Grant Award.

In addition to Board Policy Part I, Section 8A, departments must document how funding will be provided for the duration of the program. To the extent legally possible, all grant applications shall be based on full costing, including overhead and indirect costs. Where matching funds are required for grant purposes, departments shall provide as much “in- kind” contribution as allowed, instead of hard-dollar matches. Unless long-term funding is secure, departments should avoid adding staff to support new grant-supported programs. If it is necessary to add staff, limited term positions shall be used.

Personnel Policies:

Position Changes: New Positions will not be considered in the upcoming budget unless the positions are funded by secure, on-going, non-General Fund sources. Exceptions may be recommended to the Board of Supervisors by the County Executive Officer based on County's priorities, needs or mandates. As program needs change, Departments can review their current vacant positions to request position changes through the Add/Delete process.

Conversion of Limited Term positions: All Limited Term (LT) positions that are set to expire during the budget year shall be evaluated for deletion, extension of LT, or conversion to permanent positions. Stability of funding source and on-going service level needs shall be considered in this evaluation.

Vacancy Factor: A vacancy factor calculated using historic vacancy rates is required to be calculated for departments with twenty full-time equivalent positions or greater.

Capital Investments:

Capital Reserves: Once General Reserves are funded, and consideration is given to reducing long-term liabilities shown below, consider transferring one-time discretionary resources to the Accumulated Capital Outlay (ACO) Fund to be retained to assist in addressing future capital needs. Transfer monies from the ACO Fund as needed to cover the cost of Major Capital Improvement projects as approved by the Board of Supervisors.

Capital Assets (Including Vehicles): Requests for capital assets may be considered if they can be funded in a manner that does not create an increased Net County Cost; if the Board has previously approved the project or expenditure; if the capital asset is a replacement being made in accordance with an approved replacement schedule; or if there is a health and/or safety need. Requests for new vehicles are strongly discouraged and should be discussed with Fleet Management prior to submission to the CEO's office.

Long-term liability reduction policies:

Other Post-Employment Benefits (OPEB): Continue to fully fund the County's OPEB liability on a 20-year amortization schedule by transferring funds to an irrevocable trust. Allocate OPEB costs to the relevant County departments based on a State-approved allocation formula.

115 Trust for Pension and OPEB Benefits: Consider available General Fund resources to fund the 115 Trust for Pension and OPEB. The Internal Revenue Code (IRC) 115 Trust, which is administered by the Public Agency Retirement Services (PARS), can only be used to fund future OPEB and pension obligations. The funding goal is a General Fund contribution equivalent to cost sharing contributions made by employees.

Pre-Payment of PERS Costs: Pre-pay the County's annual Public Employee Retirement System (PERS) Miscellaneous employees and safety employees' pension costs, thereby avoiding the costs of interest accrued through the year, as appropriate and to the extent possible.

Other Policies:

Community Investment Fund: In accordance with the Board's Community Investment Fund policies, fiscal conditions permitting, transfer General Fund resources to the Community Investment Fund in an amount equal to 12.5% of the prior calendar year's actual General Fund Transient Occupancy Tax (TOT) revenue. In accordance with the Board's Community Investment Fund policies, the primary focus of Community Investment Fund expenditures will be on programs or services of regional significance related to parks and open space, and arts and culture.

Fiscal Contingency Strategy:

To the extent that the annual 5-Year Forecast shows that there is a deficit during the five-year projection period, expenditure reductions or other actions may be taken, if needed, to address a significant reduction in resources, as set forth in this Strategy.

The potential components of any fiscal contingency strategy are essentially the same for all local governments: incremental expenditure cuts; major program cuts; identifying and implementing new revenue sources; distinguishing between high priority and lower priority programs; across-the-board funding cuts; etc. The differences come in how these components are structured in any particular jurisdiction (i.e., what happens first, what programs, if any, are exempt from reductions, etc.).

The County's approach to structuring the components of a Fiscal Contingency Strategy is set forth below.

General Philosophy

To the extent possible, across-the-board reductions in expenditures will be avoided. Reductions will be made on a case-by-case basis, focusing particularly (though not exclusively) on discrete programs or services. Maintaining a highly professional service delivery system is of foremost importance to the County. Thus, if it becomes necessary to make significant service level reductions, the goal will be to reduce the quantity of a service provided rather than the quality of service.

Also, it does not necessarily make sense to fund current operations at the expense of long-term capital or planning programs. Consequently, every effort will be made to continue capital and planning programs geared to meeting the County's long-term needs.

Resource Reduction Priorities

Short-term Actions

The following actions will be considered when dealing with the immediate impact of a significant reduction in resources. The purpose of these actions is to achieve immediate savings and/or better position the organization to deal with the impact of longer-term actions once they are implemented. The actions are listed in priority order:

1. Major General Fund-supported office space remodels will be halted, unless they are required to address critical health or safety needs.
2. Purchase of equipment and capital assets will be selectively deferred. Funding source and impact on service delivery will be considered in implementing the deferral.

3. Implementation of new programs not fully operational and/or not fully revenue offset, will be halted.

4. Approval of contracts for services, not fully revenue offset, will be selectively deferred. Funding sources and impact on service delivery will be considered in implementing the deferral.

5. A selective hiring freeze will be implemented.

Longer-Term Actions

The following actions will be considered when dealing with the longer-term impact of a significant reduction in resources. The actions are listed in priority order and lower priority actions will be implemented only if higher priority actions are insufficient to deal with the fiscal shortfall. Once the County's fiscal situation improves, staff will seek direction from the Board on whether to restore funding or otherwise return to the pre-reduction levels.

1. A moratorium will be placed on implementing new programs or expanding existing programs if the cost of those programs or expansions is not fully revenue offset and a secure, long-term funding source is not identified.

2. To the extent legally possible, or where it does not impact the public's health and safety, place a hard freeze on backfilling reductions in federal or state funding, or in using General Fund money to cover cost of doing business increases for programs primarily funded by state or federal resources.

3. Moderate reductions in discretionary support will be made on a case-by-case basis. These reductions will focus first on programs appropriately funded by dedicated resources (such as fee-supported programs where fees are not yet at full cost recovery or state or federal programs where the County provides an over-match). Reductions made at this point will generally have only a limited impact on service levels and may, in some cases, be offset by increases in fees.

4. Discretionary funding for programs appropriately funded by dedicated resources will be significantly reduced or eliminated. This may involve reducing the County match to the minimal mandated level. In the case of programs that are primarily the state's responsibility, the County will consider returning responsibility to the state for operating those programs, to the extent permitted by law. In the case of fee-supported programs where the fee structure does not fully cover program costs, fees will be increased to fully cover those costs.

5. Limit the annual transfer of General Fund revenue to the Community Investment Fund (which is funded by a portion of TOT) as called for in current Board policy to those amounts encumbered by a multi-year contract. Do not enter into any new contracts or renew any contracts for use of Community Investment Fund money.

6. Discretionary resources that have been earmarked by the Board for certain purposes will be reviewed and proposed for re-allocation to fund core County programs.

7. Major program reductions will be proposed in programs appropriately funded with discretionary resources, starting with the lowest priority service areas and moving on to higher priority service areas as needed. Reductions will be made in the following priority order, focusing on maintaining adequate service levels in core programs:

- Community Resources/Infrastructure
- General Government – Civic Services (excluding services related to property tax assessment, collection, and apportionment)
- Law, Justice, and Public Safety
- Health and Human Services

8. Place a moratorium on all General Fund supported facilities capital improvement projects, other than those needed to address critical health and safety needs. Transfer any unobligated funds in the Accumulated Capital Outlay Fund to the General Fund.

9. A reduced work week or period of unpaid leave may be proposed to achieve salary savings.

Revenue Enhancement Strategy:

This Revenue Enhancement Strategy describes whether, and how, the County will seek additional revenue to fund needed services.

NEW REVENUE

During the period covered by this Plan, the County will not seek increases in major discretionary revenue sources or new discretionary revenue sources, such as a local option sales tax or an increase in the TOT, unless this is associated with a new program. The County may seek additional funding through:

- Pursuit of grants, though grants will only be pursued for operational funding if the funding is for programs or services the County would otherwise have provided and the grant provides on-going funding or will be used to supplant General Fund resources.

- Increases in fees for fee-supported programs, where the current fees do not fully cover the cost of the program or to keep pace with increases in the cost of doing business.