

BUDGET POLICY

No. 29-01

The following policy statements are put forth to clarify the formal position of Hernando County as to the preparation, adoption, application, and control of the annual budget.

OVERVIEW

The establishment of financial policies enables the legislative body, management, and the community to monitor its performance. It also helps in linking long-range financial planning with day-to-day operations, and provides for financial emergencies thus improving fiscal stability. This contributes to the credibility and public confidence of the organization. To the credit rating industry and potential investors, such policies and statements show a commitment to sound financial management and fiscal integrity. Sound fiscal policies that are realistic and consistent provide useful guidance for the long term programming of services and facilities. They also provide a set of assumptions that allow for more accurate budget and tax decisions.

Budgets are vital tools for establishing public policy and maintaining control over the management of public resources. A budget specifies the resources expected to be available to cover the estimated expenditures for carrying out governmental programs and services. The annual operating budget is a financial document projecting revenues and setting forth expenditure to provide services for the fiscal year. The capital budget covers outlays for the acquisition of major long-lived assets, and the resources employed for purchase of those assets. The capital budget should reflect the County's Capital Improvement Program (CIP) which schedules projects over a five-year period.

The Board of County Commissioners set short-term and long-term goals, which are reflected in the budget. These goals are pursued through programs or services that the public sector can provide more efficiently than the private sector. To promote economic efficiency, the budget should allocate resources to the programs and services that generate the greatest benefits and result in the incremental benefit being greater than the incremental cost.

BASIS OF BUDGETING

The Hernando County budget is prepared in accordance with Generally Accounting Principles (GAAP). The accounts of the county are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that include its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled.

The County adopts budgets for all Governmental Funds and Expendable Trust Funds on a modified accrual basis. Revenues are recognized when they are both measurable and available. Expenditures are recognized when the related liability is incurred. The budgets for Proprietary Funds are adopted on an accrual basis. Revenues are recognized when they are earned and become measurable. Expenses are recognized when they are incurred. For an expense to be incurred the item purchased must be received or the service purchased must be performed. Fund balance allocations (residual unappropriated liquid assets resulting from prior years' operations) are budgeted and included as revenue.

COST ALLOCATION

The Board of County Commissioners has adopted a Cost Allocation Plan for central services. The practice is to work toward a goal of allocating all costs, wherever practical, to the department receiving the benefits. This involves allocating costs of central services, which include Board of County Commissioners, Clerk Finance, Clerk Records, County Administrator Office, Facilities Maintenance, Human Resources, Legal Department, Office of Management and Budget (OMB), Purchasing and Contracts, and Technology Services. In addition, both building use and equipment use allowance are allocated.

CAPITAL IMPROVEMENT BUDGETING

Hernando County maintains a Capital Improvement Program (CIP) that covers a five-year period and is updated annually. Capital Improvements, as they pertain to the CIP, are defined as physical assets, constructed or purchased, that has a minimum useful life of 10 years and a minimum total cost of \$50,000. Proposed projects are ranked and the available funds are allocated accordingly.

GENERAL BUDGET POLICY STATEMENT

Hernando County's budget conforms to all the laws of the State of Florida as they relate to the adoption, amendment, and control of the budget. In addition, all policies set forth in this document are designed to provide for and enhance the financial stability of the County.

Budget Development:

Each year the annual budget establishes the level of funding for each of the County's various funds. The goals and objectives, activities and service levels, are dictated by the level of funding and controlled by the budget. The budget serves as an operational guideline for County staff, and instructs the departments as to level of staff, amounts of operating appropriations, and capital purchases allowed.

The first step in the development of the annual budget is to establish goals by working with the County Commissioners at a Planning and Goal Setting Workshop. Area specific economic data will be gathered and used to prepare revenue and expenditure forecasts. Trends, patterns, indexes, property valuation, growth, etc. will be compiled, analyzed, and applied in the preparation of detailed projections. These forecasts become guidelines for the basis of policy decisions developed to achieve the overall goals of the Board, while developing a financially sound budget.

Budget Guidelines:

The budgetary process is oriented toward the full use of the system. Where possible, the County will continue to integrate performance measurements and/or productivity indicators that will allow for continued efforts to improve County programs.

The Hernando County budgeting procedures attempt to identify distinct functions and activities performed by the County and to allocate adequate budget resources to perform these functions and activities at a specified level of service.

The County will assume a status quo budget from year to year with only increases based upon justification or need. The budget will be reviewed with the Board and will focus on the following:

- Program Changes - An increase in the service level will be detailed and defined as an enhancement. Where a decrease or a reduction in service level is proposed, it will be detailed for the Board as a defined reduction to a program.
- New Programs - Proposed new programs will be identified as an enhancement and require detailed justification. Analysis is to include long-term fiscal impacts. When requesting a new program, all expenditures must be justified and a viable revenue source be identified to offset the cost.
- Staffing - Staff increases will be limited to programs where growth and support specifically require the addition of staff. Reduction of staff will be done when there is no adverse effect on approved service levels.

General Budget Policy:

The Board will annually adopt a balanced budget as their yearly operating and capital plan. The budget will balance expenditures with revenues and be adopted according to the established timetable of the Truth in Millage Act (TRIM).

The County budgets revenues and expenditures on a fiscal year that begins on October 1 and ends on the following September 30.

The goal of the County will be to pay for all recurring expenditures with recurring revenues and use nonrecurring revenues for nonrecurring expenditures. If a deficit seems forthcoming, the Board will reduce appropriations or increase revenues.

Therefore, it will be necessary for Officials and Department Heads to review and control expenditures such that the rate of expenditure does not exceed the approved budget.

The budgeted expenditures and reserves of each fund (including reserves for contingencies, balances to be carried forward, and all other purposes) will equal the sum of projected beginning balances for the fiscal year and all revenues that can be reasonably expected to be received during the fiscal year. In other words, the revenues and expenditures must be equal to present a “balanced budget.”

An effort will be made to keep costs to their absolute minimum so as not to substantially increase the local tax burden.

In accordance with Florida Statutes 129.01(2)(b) and s. 200.065(2)(a), the budgeted receipts must include 95% of all receipts reasonably anticipated from all sources, including taxes to be levied, provided the percent anticipated from ad valorem levies is as specified in s. 200.065(2)(a), and is 100 percent of the amount of the balances estimated to be brought forward at the beginning of the fiscal year. The appropriations must include itemized appropriations for all expenditures authorized by law, contemplated to be made, or incurred for the benefit of the county during the year and the provision for reserves authorized by Florida Statutes 129.01(2)(c).

Authorization of expenditures of County funds will be adopted annually by the Board at the account level (line item).

The budget will provide for adequate maintenance of capital facilities, equipment and for the required replacement of equipment as established by replacement standards.

The County will continue to identify areas for evaluation efforts, by staff, committees, or consultants, to judge the effectiveness and/or efficiency of County services.

Never will the total number of permanent full-time/part-time employees on the payroll exceed the total number of positions specified by department and authorized by the Board in the adopted budget.

OMB must review all agenda items that affect the budget before being placed on the agenda.

The Annual Budget, being an intricate part of maintaining the financial stability of the County, and acting as the Financial Plan directing the County in both long-range planning and everyday operations, it is essential that timely reports are generated to inform the Board of County Commissioners and Management Staff of the County's financial progress. OMB will submit to the Board and the County Administrator on a quarterly basis, an overview report of budget to actual, both revenue and expense for all Funds and/or Departments. Any significant changes will be described in detail with any necessary recommended corrective action. Should OMB realize a financial problem exists or trends warrant closer analysis, the Director of OMB is required to inform the Board and County Administrator as soon as the situation is detected.

Budget Fund Balance Policy:

Prior to the end of the fiscal year each department/division will make a good faith estimate of all encumbrances carried forward into the new fiscal year. These estimates will be incorporated into the new year budget prior to its final adoption. Once the actual encumbrance is brought forward, those accounts will be adjusted accordingly from the estimated amount.

Fund balances anticipated at the end of a fiscal year will be budgeted as the beginning fund balance for that fund for the upcoming fiscal year.

By definition a Balanced Budget is one in which anticipated revenues to be collected in one fiscal year are equal to or greater than total anticipated expenditures for that fiscal year.

The committed but "unencumbered" balance of agreed to multi-year and revolving projects and/or contracts anticipated not to be completed by September 30 must be rebudgeted in the subsequent fiscal year.

Cash balances remaining in any fund at year-end will stay in that fund for subsequent years.

Upon completion of the fiscal year audit, any increase and/or decrease to fund balance will cause adjustments to revenue and/or reserve accounts. Additional funds should not be used to increase expenditures within the budget.

The County shall strive to maintain a fund balance of 25% in the General Fund and sufficient fund balances in all other funds to allow for adequate cash flow from one budget year to the next.

Budget Revenue Policy:

Hernando County will maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one-revenue source.

User fees and charges are established, as permitted by law, at levels related to the cost of providing that service including indirect costs.

The Office of Management and Budget will estimate its annual revenues with an objective, analytical process.

The use of revenues pledged to bondholders will conform with every respect to the bond covenants that they have been committed.

The Board and historic collection rates will dictate fee revenue amounts for purposes of budget preparation using fee schedules adopted.

County staff, in conjunction with the Grants Management Analyst, will continue to aggressively pursue grant funds. Revenues will be budgeted for current grants at anticipated grant award levels. The budget will be amended for new grants upon an award.

Matching funds for federal and state grants will not exceed an aggregate match of 50% of the total income from these sources.

Capital Improvement Budget Policy:

Each year the County will prepare a five-year capital improvement program identifying public facilities and/or equipment by service type and location with estimates of corresponding revenues to pay for such items. The Capital Improvement Program (CIP) will be according to guidelines established by the Capital Improvement Element (CIE) of the Comprehensive Plan.

The CIP will be updated annually.

To show the need for a capital project, the CIP will show all funded and unfunded items for the five-year period.

If funding for the operation of the new project is not available when the estimated completion date is identified, the project should not be funded until a verifiable funding source for operations can be determined.

Should a project be delayed for any reason, an inflation factor (to be determined by the department developing the project) should be added to the cost of the project.

The annual budget will include all capital items identified in the CIP for completing the first year of the five-year program where funding is available.

The County will maintain all assets at a level adequate to protect the County's capital investment and to minimize future maintenance and replacement costs.

The County will determine the least costly financing method for all new projects.

To maintain levels of service to the citizens of Hernando County, a continued stream of funding needs to be associated with the Capital Improvement Fund. Until a dedicated funding source can be established, the Board will direct staff on the amount of funding to be transferred from the General Fund each year for capital projects and an amount for Reserve for Future Capital Projects. Accumulated funding in the Reserve account can only be used for projects included in the Facilities Master Plan and requires a supermajority vote of the Board. Any unused capital funds at the end of each fiscal year will be deposited into the Reserve account.

Budgeted Debt Policy:

The Florida Constitution requires that long-term debt pledged by the full faith and credit of the County can only be approved by voter referendum. There is no statutory limit on the amount of debt the voters can approve. It is the County's policy to manage debt within the guidelines identified by these policies.

Hernando County's debt policy is based on the premise that debt should only be incurred for specific projects to be repaid by identifiable revenue funding sources. Each project approved will have a specific revenue stream identified as a pledgeable source.

The County will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues.

When the County finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the project.

When possible, the County will use special assessments, revenue, or other self-supporting bonds instead of general obligation bonds.

Hernando County will not use long-term debt for current operations.

The County will maintain good communications with bond rating agencies regarding its financial condition. Hernando County will follow a policy of full disclosure on every financial report and bond prospectus.

Budget Reserve Policy

The County will set aside reserves to address unforeseen and unexpected events and to offset unexpected downturns in revenues from budgeted estimates. Sufficient levels of reserves should ensure continued orderly operation and tax structure stability.

Hernando County's reserve policy will conform to the limits stated in Florida Statute 129.01(2)(c).

Reserves in the General Fund will consist of four (4) categories: Reserve for Contingencies, Reserve for Emergencies, Reserve for Stabilization and Reserve Balance Forward. Each of these reserves shall be established at a minimum level based on a percentage of the total approved General Fund budget less reserves, transfers and grants. All Other Fund Reserves will be budgeted in amounts necessary to preserve the financial stability of the individual Fund. Following describes in further detail each of these reserves:

- Reserves for Contingencies should be used for one-time expenditures that do not exceed \$100,000. The reserve shall be established at 0.5% of the total General Fund's operating budget less reserves, transfers and grants. The Board, as needed, should use these reserves for reallocation during the year to provide for small increases in service, delivery costs and unanticipated needs of a nonrecurring nature that may arise throughout the year. While these funds are intended to cover unanticipated budget issues, it is in no way intended to cover poor departmental management of appropriated funds. Use of the Reserves will be by simple majority of the Board in an amount up to \$25,000 and any amount needed to cover costs associated with Federal and/or State mandates. Any amount over \$25,000 must be approved by a supermajority of the Board.
- The County will establish a General Fund Emergency Reserve for those cases where expenditures are in excess of \$100,000 and the use of such funds are for one-time emergency expenditures (i.e. hurricanes). The reserve shall be established at 3.5% of the total General Fund's operating budget in any one year less reserves, transfers and grants and will only be used if approved by a supermajority vote by the Board of County Commissioners.
- The County will establish a General Fund Stabilization Reserve for those cases where expenditures are in excess of \$100,000 and the use of such funds are for one-time loss of a major revenue source and/or a severe downturn in the local economy. The reserve shall be established at 3.5% of the total General Fund's operating budget in any one year less reserves, transfers and grants and will be used if approved by a supermajority vote by the Board of County Commissioners. In an effort to maintain Hernando County's financial stability, it is imperative that sufficient reserves be established to carry the County through in financial downturn or emergency.
- As with many counties, Hernando County relies heavily on Ad Valorem Taxes to fund its General Fund. These funds are not substantially collected until after December 1st. A Reserve for Cash Forward will be budgeted in any fund that requires monies to be carried forward into the following year to support operations until sufficient current revenues are received. The General Fund will maintain a minimum of 11% of the total operating budget in any one fiscal year less reserves, transfers and grants for this reserve.

Insurance reserves will be established at a level consistent with purchased insurance policies, adequately indemnify the County, and its officers and employees against loss.

Additional reserves may be set aside to cover specific expenditures, where the probability of the expenditure is sufficient to plan for but estimated costs are unknown (i.e., legal cases).

Appropriations from a reserve for future construction and improvement may be made only by resolution of the Board for the purpose or purposes for which the reserve was made.

Reserve Replacement Policy:

In order to maintain a stable financial position, it is imperative that once reserve levels are established and met, a policy exists that if these reserves are used for any reason, there is a methodology in place for the recovery and replacement of these reserves. In order to maintain flexibility and not hinder the flow of operations, the replacement of reserves should consist of a two-step process.

- If the reserve funds used are less than 1% of the total fund budget, they will be required to be replaced in the following budget cycle. Example: Total General Fund Budget equals \$100 million and reserves used were \$600,000 or 0.6%. The entire \$600,000 would be replaced in the following year.
- If the reserve funds used exceed 1% of the total fund budget, then in each of the succeeding years, a minimum of 1% of the total fund budget for that year will be budgeted to replace the reserves until returned to the established levels. Example: Total General Fund Budget equals \$100 million and reserves used were \$3 million or 3%. \$1 million would have to be replaced each year until the full \$3 million was replaced.

BUDGET MODIFICATION

Hernando County has two (2) methods of budget modification. The annual budget can either be modified by resolution or budget amendment.

Budget modifications follow the rules set forth in Florida Statute 129.06.

The purpose of this process is to adjust fund amounts to reflect the level of revenues reasonably anticipated to be received and to balance expenditures to these revenues according to state law and sound financial practices.

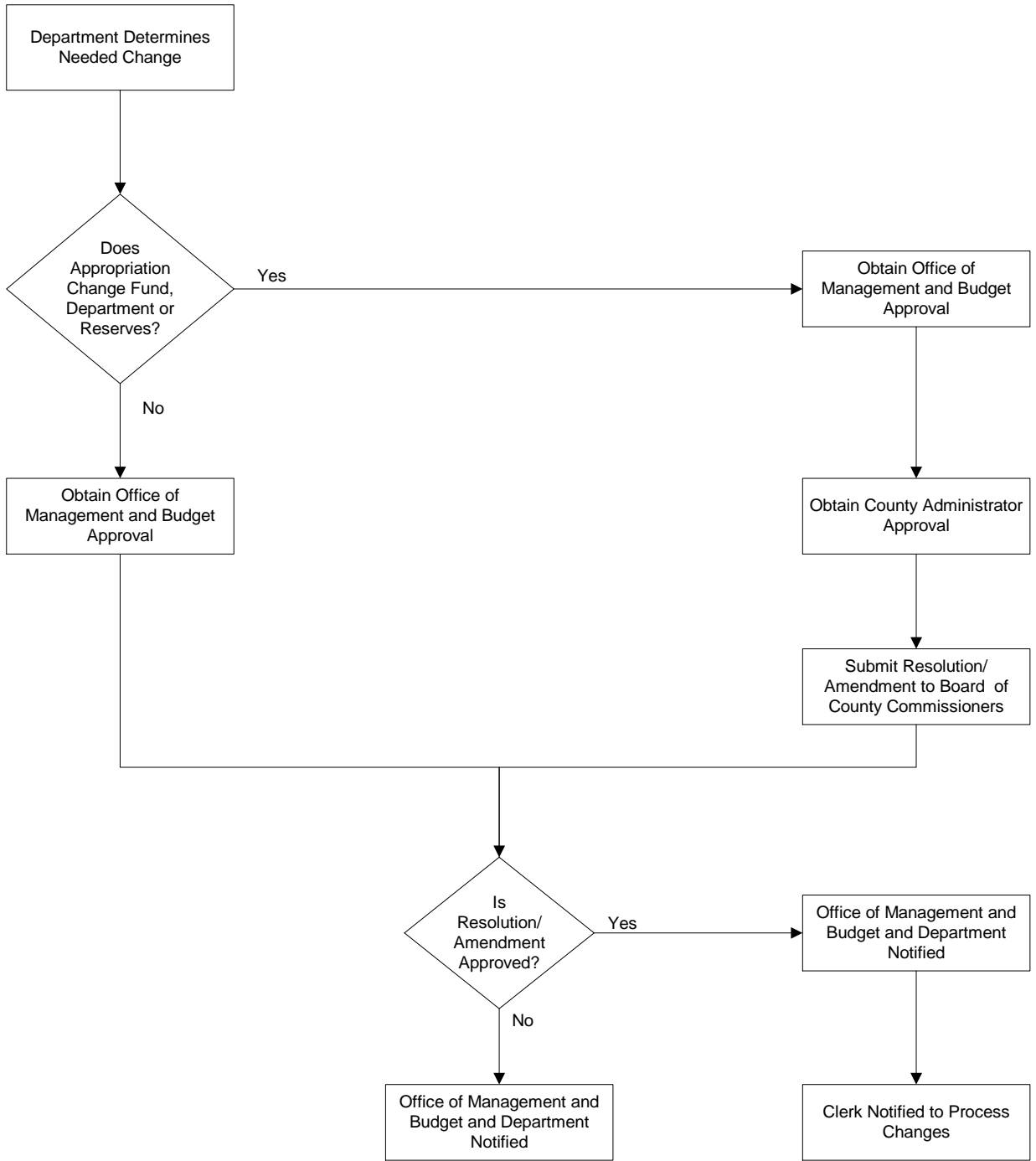
A budget resolution is processed for Board approval to recognize an unanticipated excess amount of an anticipated revenue and revenue from an unanticipated source. A resolution is also required when transferring revenues between funds. In general, a budget resolution with Board approval is required anytime the overall budgeted fund increases.

Hernando County has two (2) levels of budget amendments.

- Any transfer across department/division lines, from reserves, or increase of staffing levels must have Board approval. This also includes any transfer of positions from one department to another.
- The Budget Officer or his/her designee must approve any transfers affecting personnel costs, capital projects/equipment, and/or all other forms of budget changes (changes to line items) within the same department/division.

All requests for budget modifications must be submitted on a form entitled "Budget Amendment" and signed by the Department Head. They are then sent to the Office of Management and Budget (OMB) for review and approval. If required, they are sent onto the next level for further approval.

BUDGET RESOLUTION AND AMENDMENT PROCESS



BUDGET PROCEDURE POLICY

Budget formulation, adoption, and execution involve year-round interaction of many people at various levels within the County. The purpose of this process is to identify service needs, develop strategies for meeting these needs, and development of detailed revenue and expenditure plans to carry out the strategic plans. The budget process incorporates the following procedures and activities.

- The development of the budget preparation manual and the design and printing of budget forms.
- An annual meeting with the Office of Management and Budget (OMB) staff, County Administrator, department heads, and the Board of County Commissioners to set goals and priorities for the coming fiscal year.
- Distribution of budget packages to all operating units at a kickoff meeting with the County Administrator. This meeting will serve as a forum to answer questions on budget procedures and to inform department heads of budget policies and priorities for the coming budget year.
- OMB reviews and tabulates all operating budgets, capital improvement projects, and revenue projections. Each submission is analyzed for accuracy, content, and compliance with the previously determined priorities and policies.
- OMB meets with each department to review their budgets in detail and make adjustments if needed. These meetings give each department head the opportunity to discuss and defend the amounts requested in their individual department budget submission.
- The County Administrator and OMB meet with each department to review and evaluate individual budgets. These hearings provide a forum for the explanation of revisions determined by OMB, and for any additional revisions by the County Administrator.
- Constitutional Officers submit their budgets to OMB by July 1.
- A tentative balanced budget is generated and distributed to the Board by July 15 of each year.
- The Board reviews the requests in a series of budget workshops.
- The Board certifies proposed millage rates to the Property Appraiser.
- Public hearings are held to adopt the proposed budget, millage rates, and Capital Improvement Program.
- October 1, implementation of the adopted budget and Capital Improvement Program.

A finalized budget is printed, bound, and distributed.

Amended: September 27, 2011