

POLICIES AND MANDATES

PURPOSE OF SECTION

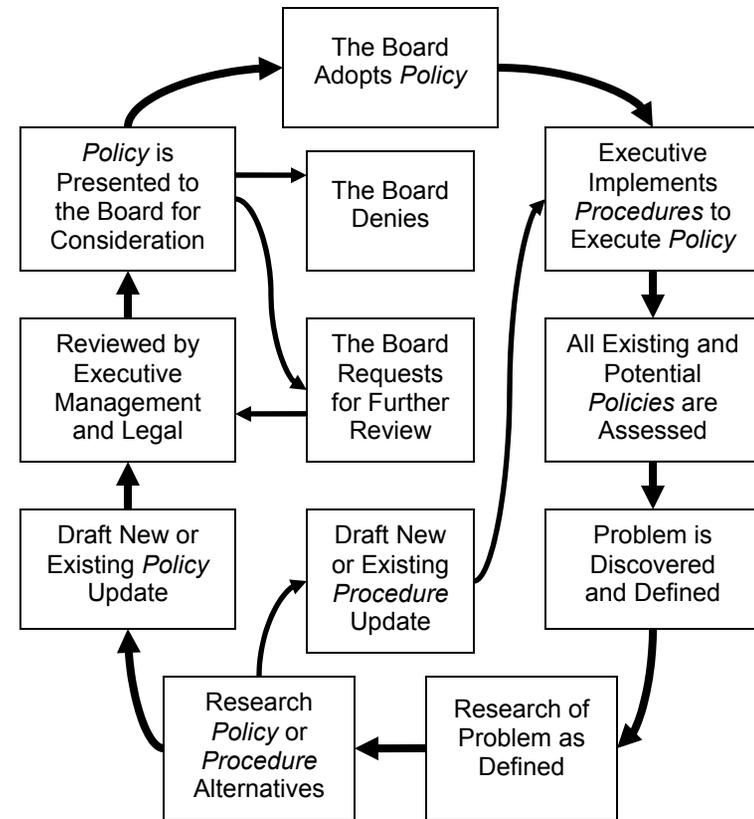
The purpose of this section is to describe long term policies of the County which are related to the annual budget process. Policy mandates from the Federal Government and the State of Arizona that impact the County's annual budget process are also summarized.

The policies and mandates are grouped into five major categories:

- 1) Finance and Accounting,
- 2) Budget,
- 3) Housing,
- 4) Economic Development,
- 5) Personnel and
- 6) Planning.

FLOW OF POLICY SETTING

The following chart illustrates the ground work to initiate a routine analysis of the County's policies and procedure management to provide assurance that the County's Policies address both defined and undiscovered problems and issues:



FINANCE & ACCOUNTING

STANDARDS COMPLIANCE: The accounting policies of the County conform to Generally Accepted Accounting Principles (GAAP) applicable to governmental agencies as adopted by the Governmental Accounting Standards Board (GASB). The County is current in implementing GASB requirements; from the new reporting Model GASB 34 to GASB 50, pension Disclosures.

POLICIES AND MANDATES



FINANCE (CONTINUED)

FUND ACCOUNTING: The County maintains accounts in accordance to the principals of fund accounting to ensure that limitations and restrictions on the County's available resources are observed and adhered to. Fund accounting classifies resources into funds with respect to the intended activities or objectives specified by those resources for accounting controls and financial reporting purposes. Each fund is an independent fiscal and accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise assets, liabilities, fund equity, revenues, and expenditures or expenses.

There is no limit to the number of funds that a government may establish and maintain for accounting and financial reporting. A general guideline is to use the smallest number of funds possible, yet be consistent with each circumstances and reporting needs.

FUND STRUCTURE: A description of the fund categories used by the County for budgetary purposes follows:

Governmental Funds: These funds are used to account for all of the County's expendable financial resources, except for those reported in the Internal Service funds. The measurement focus is on determination of financial position rather than determination of income. The modified accrual basis of accounting is used for these funds.

❖ The **General Fund** is the primary operating fund. It accounts for all financial resources of the County, except for those that are required, either by rule of statute or Generally Accepted Accounting Principles (GAAP), to be accounted for elsewhere, or chosen to do so for internal tracking purposes.

- ❖ **Special Revenue Funds** account for unique revenue sources that are legally restricted by statute, ordinance, or other specific requirements to finance specific functions or activities.
- ❖ **Debt Service Funds** are used to account for the resources that are accumulated for the payment of interest, principal, and related costs on general long-term debt, special assessments, and capital leases. This fund type is not used to account for the outstanding debt itself; that is maintained in the government-wide statements.
- ❖ **Capital Projects Funds** account for the acquisition and construction of major capital activities, and establishes a separate fund for each major individual construction project or revenue source. The majority of these fund compositions has similar imposed restrictions to that of the Special Revenue Funds, but due to their capital nature is accounted for as Capital Project Funds.

Enterprise Funds are entirely or predominantly self-supporting. These funds account for government services that are rendered to the public on a fee basis, which resembles the private sector. Measurement focus is on determination of income and financial position. The full accrual basis of accounting is used for these funds.

Internal Service Funds are used to account for the County's ongoing activities that can be viewed as similar to the private sector. Measurement focus is on determination of income, financial position, and changes in financial position. The full accrual basis of accounting is used for these funds.

A detailed description of each fund is located in the Fund Descriptions section of this budget document.



POLICIES AND MANDATES

FINANCE (CONTINUED)

CASH AND FUND BALANCES: The County maintains a Cash and Fund Balance policy in the General Fund, all Special Districts and other specific funds in order to:

- ❖ Meet liquidity requirements for current and long-term obligations
- ❖ Manage unexpected revenue shortfalls
- ❖ Accept reasonable uninsured risks, when advantageous
- ❖ Provide for unanticipated contingencies and emergencies
- ❖ Provide for long-term budget and tax stabilization
- ❖ Loan to other funds at reasonable interest rates, when necessary
- ❖ Retain only such cash and fund balance levels that are needed to accomplish the above objectives

The County Administrator and Financial Services Director are responsible for annually determining the level of cash and fund balances required to avoid borrowing for cash flow purposes during the fiscal year. The formula and methodology used to determine this is subject to review by the Board of Supervisors.

Additionally, a 5% emergency reserve above the determined required amount is maintained. The purpose of the reserve amount is to allow the County to address unanticipated situations affecting any County operation, while offering some assurance that sufficient funds will be on hand for normal cash flow purposes.

The cash contingency and reserves may only be expended upon approval of the Board of Supervisors.

In the event a fund has attained a balance in excess of the balance requirements, those excess funds shall be budgeted for use in the next fiscal year only for nonrecurring expenditures, generally capital in nature.

DEBT MANAGEMENT: The County's Debt policy addresses debt which is defined for legal purposes by the State as well as other instruments which have characteristics similar to legally defined debt. All potential funding sources should be evaluated before deciding upon a particular method of financing. Sources of funding may include, but not limited to: current revenue and fund balances; intergovernmental grants from federal, state, or other sources; state revolving funds or loan pools; private sector contributions through impact fees or public / private partnerships; and operating leases as well as the types of debt financing described below.

Long-term debt is debt that maturities exceed one year. The County may use the following types of long-term debt financing:

- ❖ General obligation bonds
- ❖ Revenue bonds
- ❖ Assessment bonds
- ❖ Improvement bonds
- ❖ Excess tax obligations (pending review)
- ❖ Certificates of participation
- ❖ State or Federal loan agreements
- ❖ Lease agreements

No long-term debt is issued until after the Board of Supervisors and County Management have reviewed analysis showing:

- 1) The debt can be assumed and serviced without negatively affecting the ability of the entity to properly maintain operations throughout the life of the debt,
- 2) That adequate resources will be available to maintain any improvements funded by the issuance of the debt. Included in such analysis shall be discussion of debt ratio standards and debt service coverage ratios.

POLICIES AND MANDATES



FINANCE (CONTINUED)

DEBT MANAGEMENT (Continued):

Authority to incur long-term debt is restricted to the Board of Supervisors, except that such debt may also be authorized by the voters of Yuma County. The following outlines the County's long-term debt practices:

Use of Financing Specialists: Consideration of long term financing should be accomplished with consultants who are experienced local government financial advisors and bond counsel. Part of the responsibility of these experts is to provide the Board of Supervisors and County Management with options and recommendations relative to the structuring of long-term debt.

Selection of Professional Services: The County secures professional services that are required to develop and implement the County's debt program. Professional services the County may require include those of bond counsel, financial advisor, managing underwriters, credit agencies, escrow agents, trustees, printers, and others. These services will be procured when in the best interest of the County by a competitive selection process.

Method of Sale: Debt issues of the County may be sold by competitive, negotiated, or private placement sale methods unless otherwise limited by State law. The selected method of sale will be the option which is expected to result in the lowest cost and most favorable terms given the financial structure used, market conditions, and prior experience. The County will use the competitive sale method unless there are compelling reasons which indicate that a negotiated sale or private placement would have a more favorable result due to prevailing conditions in the current market.

Bond Insurance: This is an insurance policy purchased by an issuer or an underwriter for either an entire issue or specific maturities. It will guarantee the payment of principal and interest, which in turn provides a higher credit rating and thus a lower borrowing cost for an issuer. The bond insurance company should be chosen through a competitive process. The basis for evaluating interested companies should be an estimate of the greatest net present value insurance benefit (present value of debt service savings less insurance premium).

Arbitrage Liability Management: The County's Financial Services Director shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This includes tracking investment earnings on bond proceeds, using outside experts to assist in calculating rebate payments, preparing returns, and making payments in a timely manner in order to preserve the tax exempt status of the County's outstanding debt issues. The County will structure its financing in such a way as to reduce or eliminate future arbitrage rebate liability wherever feasible and to insure that appropriate rebates of earnings in excess of established arbitrage limits are made in a timely way.

Maturing Structures: Repayment schedules should not extend beyond the economic life of the project or equipment financed.

Short-Term Debt: Debt which maturity does not exceeds 12 months. Examples of appropriate use of short-term debt are:

Interfund loans – used to deal with temporary cash shortages in special revenue funds, primarily grant reimbursement agreements.

Temporary cash shortages for routine operations – used to meet the routine operating expenses in the event of a temporary cash flow shortage is present due to the timing of tax receipts or other expected revenues.

Natural disasters or extraordinary emergencies – in the event the County may be required to borrow funds to cover expenses resulting from natural disasters or extraordinary emergencies.



POLICIES AND MANDATES

FINANCE (CONCLUDED)

DEBT MANAGEMENT (Concluded):

Revolving Line of Credit: The County's revolving line of credit is as established in Arizona Revised Statute 11-604.01. Per Statute it shall not exceed 45% of non-restricted operating revenue received the prior year. This line of credit may be used to facilitate the County's purchase of goods and services for which budget authority has been provided by the Board of Supervisors.

Credit Purchases: Refers to credit and purchase card obligations that are typically extended directly by vendors (store credit). These credit purchases are used to facilitate the County's purchase of goods and services for which budget authority has been provided by the Board of Supervisors. The County's departments may incur these obligations when adhering to the established 1) Purchasing, 2) Credit Card, 3) Professional Services procurement policies.

The County's Comprehensive Annual Financial Report (CAFR) and Annual Budget describe the County's debt obligations. The County's goal is to maintain or improve its bond rating, to that end, prudent financial management policies will be adhered to in all areas. The Debt Management Policy should be reviewed annually and the County's Financial Services Director is authorized to issue additional statements as necessary to clarify this policy.

INDIRECT COSTS: It is the Board of Supervisors' policy to recover from all qualified funds, costs incurred by the General Fund for services provided by central services departments of the County. Allocation is a permitted by law under OMB Circular A-87. "Cost principles for State and Local Governments".

BUDGET

TIME OF ADOPTION: Arizona Revised Statutes (A.R.S.) requires the County to prepare and adopt a balanced budget annually for each individual governmental-type fund. Traditionally, the Board of Supervisors approves operating budgets before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on or before the third Monday in August.

BUDGETARY BASIS: The County prepares its budget with the accounting principles consistent with its financial reporting methods for all funds (except for Depreciation and Compensated Absences).

For governmental-type funds the modified accrual basis of accounting is used. Revenues are recognized when available and measurable. Expenditure accruals and liabilities outstanding for goods or services received on or prior to but are unpaid at June 30, are set up to 60 days after the fiscal year end. All open encumbrance's lapse at fiscal year end.

For business-type funds the full accrual basis of accounting is used. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

The budget consists of all funds subject to appropriation. Fiduciary funds appear in the County's financial statements, but are not described in the budget.

POLICIES AND MANDATES



BUDGET (CONTINUED)

BALANCED BUDGET: Arizona law (Title 42 of Arizona Revised Statutes) generally requires the Board of Supervisors to adopt a balanced budget annually. The primary property tax levy, when added to all other available resources, must equal the County's estimated expenditures. In addition to complying with this mandate, the formula used to implement the County's cash balance policy protects the County from adopting budgets that will result in structural deficits in future years.

EXPENDITURE LIMITATIONS: Article IX, Section 20.1 of the Arizona State Constitution sets limits on County's budget capacity. This limitation applies to all Arizona cities and counties. Generally, the Board of Supervisors cannot authorize expenditures of local revenues in excess of the expenditure limitations determined annually by the Arizona Economic Estimates Commission.

The limitation is based on the County's actual expenditures in 1979-80, adjusted to reflect subsequent inflation and population growth. Not subject to this limit are items such as bond proceeds, related debt service, interest earnings, special voter approved districts, certain highway user funds, federal funds, monies received pursuant to intergovernmental agreements, and State grants used for specific purposes.

Constitutional Expenditure Limit	\$ 80,347,427
Recommended Budget (Net of Exclusions)	<u>53,642,033</u>
Amount below the Constitutional Limit	<u>\$ 26,705,394</u>

PROPERTY TAX LIMITATION: The Arizona Constitution and State law specify a property tax levy limitation system. The system consists of two categories of levy; a limited levy known as the primary property tax levy and a number of unlimited levies referred to as secondary property tax levies.

Primary property tax levy: There is a strict limitation on how much a County can levy as a primary property tax. ARS 42-17051 states this levy shall be limited to an increase of 2% over the prior year's maximum allowable primary levy, plus increases due to a net gain in property not taxed the previous year (new construction). Even if the County does not adopt the maximum allowable primary levy from year to year, the 2% allowable increase will be based on the prior year's maximum allowable primary levy. The 2% increase applies to all taxable property.

Secondary property tax levy: The County levies three secondary property taxes: (1) Flood Control District, (2) Library District Operations and (3) Library Districts Bond Repayments. The County also has 168 Improvement Districts that contain a secondary tax levy to pay for specific improvements and maintenance that benefited those specific developments.

Not only is the dollar amount of the secondary property tax levy unlimited, the actual full cash value of property that is used to determine the tax rate will be subject to changes in market value without a cap, unlike the primary tax levy which uses a legislated controlled assessment system.

BUDGET MONITORING: The County's administration monitors the County's budget at various levels. Generally, the General and Special revenue funds are monitored at the categorical level (Personnel, Supplies and Services, and Capital Outlay). Debt and Internal Service funds are monitored at the fund level; and Capital Project funds are monitored by individual projects.

If permitted under ARS 42-17, budgets are modified throughout the fiscal year as unforeseen expenditures arise or anticipated resources dissipate



POLICIES AND MANDATES

BUDGET (CONCLUDED)

APPROPRIATION TRANSFERS: The Board of Supervisors has established levels of approval authority relating to transfers of appropriations made in the annual budget.

For transfers between funds, except as listed below, Board of Supervisors approval is required.

For transfers between departments in the same fund, the County Administrator may transfer amounts up to \$20,000 between mutually requesting departments without Board approval. Transfers exceeding \$20,000 in the same fund may be approved by the County Administrator if the amounts are used for the purposes originally approved by the Board of Supervisors. The County Administrator can make no transfers from the Contingency or Operating Reserve accounts without Board approval.

For transfers between line items within the same department and fund, department heads may make any line item transfers within their respective budgets. The exception is, transfers from personnel need Board approval (however, the County Administrator may approve if the transfer is to purchase contract services to achieve the same purpose).

For transfers between capital improvement projects, the County Administrator may transfer amounts up to \$20,000 between projects in the same capital projects fund without Board approval. The County Administrator can make no transfers from capital reserve accounts without Board approval.

RANKING OF DEPARTMENT REQUESTS: To provide a level of confidence to County residents and the Board of Supervisors, the Budget Review Team (BRT) assures that the Budget is based on fair assessments from all departmental requests by prioritizing all department budget requests for the County, taken as a whole.

The methodology used to create the priority ranking, evaluates each request against a uniform set of criteria. The criteria used to score and rank all department requests with impacts on the general fund are as follows:

- ❖ Strategic Plan (15) – does the request directly address a County Strategic Plan’s *Goal, Objective* and / or a *Strategy*; the strength of addressing those goals, objectives and strategies and the consistency with the County’s current direction?
- ❖ Cost (15) - The associated costs over a three fiscal year period.
- ❖ Core Values (10) – does the request directly address promoting one or more of the County’s five Core Values?
- ❖ Return on Investment (20) – does the request directly address an increase in productivity; creation of new revenue generation; or potential future cost-avoidance (limited emphasis)?
- ❖ Service Impact (15) – how services to the customer would be impacted in three criteria: 1) expand services, 2) no significant impact / maintaining status quo and 3) avoid an undesired reduction of service levels?
- ❖ Documentation of Resources Needed (10) – documentation of the resources needed and how the resources are to be accounted for.
- ❖ Documentation of Results Expected (10) – documentation of the results expected requirements.
- ❖ Department priority (5) – Prioritized by respective department head.

Once all of the requests are rated and evaluated, they are placed into a table arrayed from the highest to lowest total rating. A cut-off line is drawn. This line is established based on the amount of available resources; distinguished by both on-going and one-time in nature. Requests appearing above the line are included in the Recommended Budget. The “*Priority Ranking of Requests*” section lists out each of the individual rated items, score and ranking order.

POLICIES AND MANDATES



HOUSING ASSISTANCE

The Board of Supervisors will administer housing assistance programs to the extent resources are provided by the State and Federal government.

ECONOMIC DEVELOPMENT

INCENTIVES: Yuma County's unemployment rate and per capita income continue to be far removed from State-wide averages. The County's Strategic Plan calls for strategies to be created to assist with economic development. The Board of Supervisors has adopted an incentives policy as one strategy.

The stated goals of the policy are to induce private sector capital investment, to diversify the economic base and to create quality jobs for Yuma County residents. Existing businesses that are expanding in or to Yuma County are eligible for incentives.

Incentives are not provided to prospects whose primary market for their products or services would be in Yuma County, if there are other existing businesses in Yuma County that provide substantially the same product or service and are able to meet the local market demand.

Incentives are only provided when they are needed to secure the proposed project; they are not made available when it is probable the business would relocate or expand in Yuma County without the County's inducement.

The amount of any incentive shall be recouped through estimated Yuma County property tax and/or sales tax enhancements within

3 years of the occupancy date. This payback period may be extended to as much as five years for phased projects, or for projects providing jobs with wages that are at least at the average wage level in Arizona.

Incentives are considered for companies that provide health insurance for their employees and offer dependent coverage at group rates. Also for those companies that provide wages that are competitive with wages paid by similar industries in the region.

Incentives are in forms that leave value in the community (i.e. better skilled resident workers; tax base enhancements; strategic infrastructure expansion, etc.).

Incentives are conditioned upon performance. Companies for which incentives are considered shall execute a contractual commitment to ensure their compliance with job creation and/or capital investment, before any incentives may be provided.

The amount available for incentives is determined during the budget process.

PERSONNEL

EMPLOYEE COMPENSATION:

Pay for Performance. The Board of Supervisors has adopted a performance based salary adjustment policy applicable to the County's Regular Step Pay Plan for employees. This policy anticipates a certain % of payroll being set aside annually to be used by department heads to award meritorious work performance by employees.

Step Based Merit Plan. The Board of Supervisors funds salaries for Superior Court employees via a traditional step-based merit plan.

Market Based Compensation. It is the Board of Supervisors' policy to maintain employee salaries at a level that is competitive in the market place



POLICIES AND MANDATES

PLANNING

FISCAL FORECAST: Each January, the Board of Supervisors conducts a workshop with all County elected officials and its management team. The purpose of the workshop is to consider the County's projected fiscal health for the next five years. The discussion is based upon a presentation made by the County Administrator. The presentation identifies estimated County revenues, expenditures and fund balances for the five year period.

By the end of the workshop, County officials have a better understanding of the five year forecast and what resources may be available in the upcoming budget year to implement activities from the Strategic Plan, the Capital Improvement Plan, the Comprehensive Plan or other departmental initiatives.

CAPITAL IMPROVEMENTS PLAN: The Board of Supervisors annually adopts a 5 year Capital Improvements Plan (CIP) in conjunction with its adoption of an annual budget. The first year of the Capital Improvements Plan consists of those projects for which the Board appropriates funds. The projects identified in the 4 outlying years are to be considered projects that are scheduled to be implemented, but are subject to future appropriation decisions by the Board.

2010 COMPREHENSIVE PLAN: It is the policy to maintain a long term Comprehensive Plan (also known as a General Plan) in conformance with Arizona State law. The Plan has a 10 year planning period and focuses on describing the desired physical development of the County. The complete plan is available from the County's Department of Development Services and through its web site: (www.co.yuma.az.us/dds/ord/plans.htm.)

The goal statements include policies or expectations that are in-place and on-going as well as ones that will be undertaken within the next two years. Many of the goal statements listed do not require specific budget increases: they are things that can be accommodated by adjusting the existing workload of the department, or can be accomplished by the private sector at the time of their submittal of specific projects for approval.

Land Use Goals:

- Encourage Agricultural & Rural Sustainability.
- Protect Existing Rural & Scenic Landscapes
- Maintain Land Use Compatibility
- Encourage Mixed Use Developments
- To Protect Unique Assets
- Promote Land Use Designations, Uses and Plans That Minimize Impacts to the Yuma International Airport and Military Installations

Open Space & Recreational Resources Goals:

- Strengthen the Scope of the Yuma County Parks and Recreation Department
- Expand Yuma County Parks and Recreation Department Resources
- Advocate Open Space and Recreational Resources Development

Circulation Goals:

- Support Existing Transportation & Aviation Plans
- Consider means of eliminating or limiting future airfield encroachment
- Improve the overall transportation level of service
- Support fiscal responsibility by investigating alternative funding sources including fair share payments from the development community

Environmental Goals:

- Minimize Air Pollutants Generated by All Sources
- Minimize Adverse Effects of Noise Pollution
- Map Environmental Constraints
- Support Existing Water Resource Plans & Programs
- Protect the Long Term Availability & Viability of Water Resources
- Improve Management of Solid Waste Disposal, including reduction of illegal dumping (Dome Valley\Wellton).

POLICIES AND MANDATES



PLANNING (CONCLUDED)

STRATEGIC PLAN: The County's Strategic Plan is a 4 year plan identifying (1) service expectations and (2) community conditions to be achieved by the end of the four year period. The Newly adopted plan expires in fiscal year 2012.

The Strategic Plan is a document separate from the Annual Budget, but they are inter-related. The expectations set forth in the Strategic Plan are a key source for departments to identify their annual budget priorities. Departments want to make sure they have budget authority to maintain or achieve the expectations relevant to their departments.

The County's Strategic Plan consists of five Primary Goals:

- ❖ **Community Health, Safety, and Well-Being**—To promote and enhance community health, safety, and well-being.
- ❖ **County Resources**—To maintain a strong financial base for the organization and to assure there are adequate resources to sustain operations and initiatives. Included are two sub-goals: 1) to provide services effectively and efficiently; and 2) to attract and retain a competent County Workforce.
- ❖ **Customer Satisfaction**—To assure customer satisfaction by all those who use County services or facilities.
- ❖ **Economic Development**—To promote the economic development of our community by diversifying our economic base and by securing quality employment opportunities for our citizens.
- ❖ **Public Awareness, Trust, & Participation**—To establish a broad base of public awareness designed to involve and inform our citizens about County issues and to assure high levels of participation in, and trust of, County government.

Each Primary Goal has a subset of department level Goals. These department level Goals are more specific than the Primary Goals and help express the aspects of the Primary Goal that are of particular concern to the County. Department level goals are further broken down into Objectives and Strategies to link the County's plan of action and monitor our progress in achieving Primary and department level Goals. The Expectations section of each department/district budget is tied to a Primary Goal, department level Goal, Objective, or Strategy.

ORGANIZATIONAL EFFECTIVENESS: Yearly, departments prepare written reports addressing the effectiveness and efficiency of their departments. For effectiveness, discussion focuses on service levels and community conditions. For efficiency, departments describe the changing cost of providing services and productivity over time. To the extent data is available; departments are to show comparisons with other entities. Annual reports are prepared in accordance with the recommendations of the Governmental Accounting Standards Board for Service Efforts and Accomplishments reports.