



MARICOPA COUNTY INTERNAL POLICY

Policy Title: BUDGETING AND ACCOUNTABILITY	Policy Number:	B1011
	Current Adoption Date:	05-04-2016
Approved by: BOARD OF SUPERVISORS	Current Implementation Date:	05-04-2016
	Board Agenda Number:	C-49-15-021-6-01
	Original Adoption Date:	June 1994

I. PURPOSE

To direct development and management of Board approved budgets for appointed, elected and judicial branch Departments as well as Special Districts and to ensure accountability and compliance with the law. This policy promotes financial stability while providing Departments with flexibility in managing their allocated resources.

II. AUTHORITY

A.R.S. §42-17101 requires the County to prepare a schedule of estimated expenditures and revenues each year, i.e., an annual budget. A.R.S. §42-17106 specifies that the County and its Special Districts may not incur expenditures in excess of the amounts appropriated by the Board of Supervisors (Board) in the annual budget.

III. DEFINITIONS

- A. Appropriated Budget:** A budget adopted by the Board pursuant to statute that authorizes expending funds or incurring obligations for a specific purpose.
- B. Appropriation Level:** The detail to which a budget is appropriated by the Board, such as department and fund, project, or activity level, etc. Appropriation levels are defined annually by the Board during budget development.
- C. Assigned Fund Balance:** Fund balance which reflects a government's intended use of resources.
- D. Board of Supervisors/Board of Directors (Board):** For the purpose of this Policy, "Board" refers to the Maricopa County Board of Supervisors and the Board of Directors of its respective Special Districts.
- E. Carryforward:** Allocated funds for a specific non-recurring project not spent during the Fiscal Year in which they were approved. Carryforward is not allowed from one Fiscal Year to another without Board approval and proper reconciliation.
- F. Central Service Cost:** The overhead cost associated with internal services that cannot readily be broken down by Departmental use (e.g., Finance, Procurement, Facilities Management services).

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- G. Central Service Costs Allocation (CSCA):** An allocation of Central Service Departments' Costs to all Funds through a consistent allocation methodology in proportion to the service or benefit received. The Department of Finance (DOF) will annually prepare the CSCA plan.
- H. Committed Fund Balance:** Fund balance whose use is constrained by limitations imposed by the Board of Supervisors.
- I. Department/Special Districts (Department):** For the purpose of this Policy, "Department" refers to any division of the County including elected and judicial branch offices and Special Districts.
- J. Detailed Budget:** The Appropriated Budget calendarized by month, function, organizational unit, program/activity/service, object/source and position as defined annually by the Office of Management and Budget (OMB).
- K. Detention Fund:** A Special Revenue Fund approved and funded by a voter initiative that can only be used for Detention related operational and capital expenses.
- L. Discretionary Internal Service Cost:** An amount billed to one Department by another Department for internal services provided based on use.
- M. Fiscal Year:** The budgeting period used by the County that runs from July 1 through June 30.
- N. Fully Funded Position:** An authorized position that is fully funded by on-going operational revenues of the County, whether General Fund, Special Revenue Funds or Grant Revenues.
- O. Function:** The classification of expenditures and revenues according to their appropriation level including whether they are recurring or non-recurring.
- P. Fund Balance:** The difference between fund assets and fund liabilities. For the purpose of this Policy, Fund Balance refers to cash balance.
- Q. General Contingency:** An allocation the Board may appropriate for unidentified and/or unquantified expenses that are later identified and quantified during the Fiscal Year.
- R. General Fund:** The fund associated with County financial resources that is the primary operating fund.
- S. Indirect Costs:** A cost to a Department for administrative overhead that is not readily assignable to the objective specifically benefited.
- T. Internal Service Cost:** An amount associated with a specific service provided by one Department for another.
- U. Internal Service Department:** A Department that provides services primarily to other County Departments, e.g., Equipment Services, Telecommunications, Reprographics.
- V. Line Item Budget:** A budget appropriated at a more restrictive level such as object code, organization, program or activity. Line item budgets are monitored at the more restrictive appropriated level and may include the review of all invoices, payments and journal vouchers.

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W. Lump Sum Budget: A budget appropriated at the highest level (Dept, Fund and Function); departments may manage expenditures at the highest level and may move funding between activities, organizations and object codes.

X. Non Departmental: A special Department code utilized for budgeting revenues and expenditures of specific Board approved items that are not related to a specific department. Non Departmental budgets will be established and maintained in the General Fund, the Detention Fund, and any other fund with applicable revenues and expenditures.

Y. Non-Discretionary Internal Service: A service that costs a flat fee per Fiscal Year to deliver regardless of the number of uses or users; this is also referred to as a base level service.

Z. Non-General Fund: A fund that is restricted to specifically identified uses.

AA. On-going Revenues: Revenues from economic activity that are generally consistent and estimable.

BB. One-time Revenues: Revenues that are derived from a singular event, such as the sale of property, or an economic anomaly.

CC. Owning Department: The Department that owns the asset.

DD. Reserves: A portion of the General Fund carried from one Fiscal Year to the next to maintain a balanced budget in case of unanticipated expenditures and/or revenue shortfalls.

EE. Restricted Fund Balance: A fund balance which is subject to externally enforceable legal restrictions.

FF. Special Revenue Fund: A fund that is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes.

GG. Structurally Balanced Budget: A budget in which all recurring expenditures are fully supported by recurring sources of revenue over the economic cycle.

HH. Unassigned Fund Balance: Fund balance which is not restricted, committed, assigned, and/or any negative fund balance.

II. Zero Based Budget (ZBB): A process in which the baseline of each budget is zero until expenditures are justified.

IV. BUDGET PRINCIPLES

A. Each year, the Board will establish priorities and guidelines for budget development and will adopt Appropriated Budgets for all Departments.

B. The County determines the expected General Fund operating revenue for the upcoming Fiscal Year and the budget guidelines that ensure that operating expenditures do not exceed expected revenue over the economic cycle.

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- C. A Structurally Balanced Budget is required throughout the budget development and implementation process. The County operating standard is that expected revenues will at all times equal on-going expenditures over the economic cycle.
- D. The County uses a Lump Sum Budgeting method where Departments are allocated an Appropriated Budget at the start of each Fiscal Year. Departments are expected to manage their allocated funds according to their needs for the full Fiscal Year. Revisions to Appropriated Budgets are allowed only with Board approval.
- E. The Board appropriates the budget at the Department, Fund and Function level, unless specifically noted.
- F. The Board segregates a portion of the General Fund resources for budget stabilization which will be sufficient to minimize cash flow borrowing. It may also be used for future year Capital Improvement Program (CIP) and technology expenses and/or appropriated for contingencies in the current Fiscal Year.
- G. The Board maintains the property tax levy to provide sufficient levels of service for the County's Operating Fund, Library District, Flood Control District and Debt Service Fund.
- H. The stages of budget development are as follows:
 1. Baseline Budget: the budget provided to Departments or a modified Zero Based Budget is the starting point for budget development.
 2. Requested Budget: the budget that Departments submit to OMB and the Board for review.
 3. Recommended Budget: the Requested Budget adjusted based on OMB analysis and Board guidance.
 4. Adopted Budget: the final budget approved by the Board prior to the start of the Fiscal Year; this is the initial Appropriated Budget.
 5. Revised Budget: the Adopted Budget inclusive of approved changes during the Fiscal Year; this is also referred to as the Appropriated Budget.

V. ANNUAL BUDGET GUIDELINES

- A. Departments will follow this policy, the annually published guidelines approved by the Board and the instructions provided by OMB in preparing budget requests.
- B. Restricted Use Funding Sources
 1. Grants and Special Revenue Funds will be used wherever possible for direct programmatic costs and appropriate indirect and Central Service Costs. Departments will report to the Board non-appropriated funding sources available to support their operations and programs. Investigatory or security issues will be addressed individually.
 2. Grant, donation or intergovernmental agreement (IGA) revenues must be supported by an itemized list of each revenue source. Current Fiscal Year funding levels can be used for the next Fiscal Year budgeting for recurring grants and IGAs, but may not include an increase from the current Fiscal Year.

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3. Where appropriate, services and programs will be supported by user fees. Fees should be developed based on current market conditions and on full cost recovery including Indirect Costs. Fees and fee revenue will be reviewed annually in conjunction with the budget development process. Additional revenue from proposed fee increases may not be budgeted until fees have been approved by the Board.

C. Position Funding

1. Positions must be fully funded at all times. In order to create new positions, Departments must first verify on-going, full-year funding. If a position loses funding, it shall be inactivated.
2. Departments will demonstrate that positions are fully funded during the budget development process and continue to demonstrate the funding in the forecast process throughout the year and into future Fiscal Years' operational budgets.
3. Personal service budgets shall include an allowance for salary and benefit savings based on an analysis of trends, prior years' turnover rates and recent market adjustment implementations.

D. Capital Improvement Program (CIP) Budget

1. Each year the Board will develop and approve a five-year CIP budget. Project requests for inclusion in the CIP will include the on-going operating costs associated with the project and may include a contingency allocation in the amount of 10% of the total project cost or \$1,000,000, whichever is less.
2. Capital Improvement requests are submitted utilizing the process outlined by the Facilities Management Department.
3. Capital improvements will not be budgeted unless specifically approved by the Board.
4. The Board must approve changes to project appropriations, to five-year CIP's or to other project plans.

E. Major Maintenance

1. The annual operating budget should provide for the adequate and prioritized maintenance of facilities and major equipment from current revenues.
2. Major Maintenance requests are submitted utilizing the process outlined by the Facilities Management Department.
3. Major maintenance projects for General and Detention Fund facilities will be budgeted in the Facilities Management Department budget. Major maintenance projects for Non-General Fund and Non-Detention Fund facilities will be budgeted in the Owning Department budgets.

The annual budget should provide for the adequate and prioritized replacement and maintenance of County wide technology software and hardware.

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F. Non Departmental Budget

1. Non Departmental revenue: General revenues that are not related to specific programs, activities or departments will be budgeted and reported in Non Departmental. Such revenues include, but are not limited to, the following:
 - a. Property Taxes
 - b. State Shared Sales Taxes
 - c. State Shared Vehicle License Taxes
 - d. Jail Excise Taxes
 - e. Payments in Lieu of Taxes

2. Non Departmental expenditures: General expenditures that benefit the County as a whole, are not specific to a single department, are best managed outside of a specific department and are budgeted in Non Departmental. These expenditures include, but are not limited to, the following:
 - a. General Debt Service
 - b. Taxes and Assessments
 - c. Board-approved Special Projects or Initiatives
 - d. Major Technology Projects
 - e. Facilities Major Maintenance
 - f. Capital Improvement Projects
 - g. Vehicle & Equipment Replacement for the General and Detention Funds

3. Non Departmental contingency appropriations: The purpose of a contingency appropriation is to maintain a reserve of expenditure authority from which specific amounts can be transferred to other appropriated budgets after adoption of the annual budget to cover emergency or critical items.
 - a. Contingency appropriations may be established within Non Departmental for the General Fund, Detention Fund, and other funds as appropriate.
 - b. Contingency appropriations may be established for Non-Recurring appropriations as well as for operating appropriation purposes.
 - c. Contingency appropriations may be undesignated for future general purposes or they may be reserved by line item for specific anticipated issues.
 - d. The Board of Supervisors must approve all transfers from contingency appropriations.

4. Administration of Non Departmental budget: Non Departmental budgets will be administered by the Office of Management and Budget under the direction of the County Manager and the Deputy County Manager. The Deputy County Manager or designee must authorize all expenditures prior to incurring obligations or making payments. Procedures will be established for setting adequate appropriations for the following items:
 - a. Vehicle and Equipment Replacement
 - b. Desk Top/Lap Top Replacement
 - c. Outside Legal Counsel Billings

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- d. Economic Development Programs
- e. Staffing Studies and Market Pay Contingencies
- f. Capital and Technology Improvement Programs

G. Vehicle Replacement

1. Vehicle replacement for General and Detention Fund vehicles will be budgeted in the Non Departmental budget. Vehicle replacement for all non-General and non-Detention Fund vehicles will be budgeted in Owning Department budgets.
2. Equipment Services prepares a needs assessment to determine which vehicles require replacement for upcoming Fiscal Years.
3. Vehicle replacement will be funded only for the current equivalent equipment class, make, model and equipment extras. Upgrades are not funded under the vehicle replacement budget. If a Department determines upgrades are necessary, the Department has two options: (a) pay for the upgrades from the Department's current operating budget; or (b) request upgrades and additions during the development of the Department's budget.
4. If the full cost of replacement is lower than originally estimated, the savings will revert to the appropriate fund. Cost overruns will be absorbed by the appropriate vehicle replacement budget.
5. OMB must approve all charges to the vehicle replacement budget.

VI. BUDGET DEVELOPMENT BY STAGE

A. Baseline Budgets

1. Departments are required to participate in the strategic planning process. Strategic plans and performance measures, along with direction from the Board, will be the primary basis for funding decisions.
2. The Board and OMB set a baseline budget for each operating, appropriated, and non-grant funded budget.
3. Departments are either given a baseline budget or are directed to build a budget using a modified Zero Based Budget model or another alternative model.
4. Appropriated Budgets are not guaranteed from one Fiscal Year to the next.

B. Requested Budgets

1. Departments shall submit Requested Budgets for review and analysis by OMB.
2. Departments shall verify funding for all purchase requisitions, contracts and agreements. Departments shall not recommend approval of any agreements that commit the County to expenditures for which future funding is not identified.

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3. All budget requests shall be submitted at a detailed level as defined in OMB's annual instructions.

C. Recommended Budgets

1. The Recommended Budget is the budget OMB submits to the Board for action after reviewing and revising Department requested budgets based on the Board and County Manager directives.

D. Adopted Budget

1. The Adopted Budget is the final budget approved by the Board prior to the start of the Fiscal Year and is the initial Appropriated Budget.

E. Appropriated Budgets

1. The Appropriated Budget is the Adopted budget plus any amendments/adjustments approved by the Board throughout the Fiscal Year.

F. Budget Development Constraints

1. Internal Service Departments will develop fees and charges based on recovery of actual costs for the services they provide. Non-discretionary internal services will be charged at the department/fund level. Discretionary Internal Service Costs are the responsibility of the requesting Department.
2. Where allowable, grant and Special Revenue Funds will pay the applicable Central Service Cost Allocation (CSCA) charges unless the Board approves a variance. CSCA charges for Non-General and Detention Fund Departments, except grant and Internal Service Departments, will be based on a full-cost allocation. Grant and Internal Service Department CSCA charges will be determined in accordance with 2 CFR Part 225 (OMB Circular A-87).

VII. BUDGET/MAINTENANCE

A. General Statements

1. Departments shall maintain detailed revenue and expenditure budgets.
2. Detailed budgets shall equal Appropriated Budgets.
3. Departments have the flexibility to incur expenditures that vary from their Detailed Budgets as long as Departments comply with their Appropriated Budget and absorb unanticipated spending increases.
4. Directors and program managers must review new, unfunded or under-funded program mandates from the state and federal government, determine the fiscal impact to their Appropriated Budgets and identify funding solutions. All non-recurring funding, e.g., CIP funding, will undergo a reconciliation process at year-end and the Carryforward budget will be adjusted by the Board.

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5. Reconciliation of non-recurring expenses, including projects, will occur annually at the end of the Fiscal Year and must be adjusted and approved by the Board as soon as possible after the third close of the Fiscal Year but no later than October 31st of each calendar year.

B. Revised Budget:

1. The Board may require Departments to wait until the end of the Fiscal Year before acting on Department requests for increases or contingency transfers to Appropriated Budgets.
2. During the Fiscal Year Appropriated Budgets may only be changed with Board approval.
3. OMB will ensure that all Detailed Budgets equal the Appropriated Budget, including any revisions made to the Appropriated Budget during the Fiscal Year.
4. Departments may not exceed their annual Appropriated Budgets.
5. Any Department with a negative year-to-date expenditure, negative year-end OMB forecast, or negative revenue variance in the General Fund, Detention Fund, or any fund that requires General Fund subsidies, must provide a written explanation and corrective action plan to the Department of Finance (DOF) and OMB. OMB will help the Department refine its corrective action plan based on the Department's need and current situation.

Departments shall be required to reduce expenditures to offset any shortfall in their budgeted revenue. If there is a significant risk that a Department will exceed its annual appropriation, the Board may place the Department on a Line Item Budget.

6. If, at the end of the Fiscal Year, a Department exceeds its Appropriated Budget or creates financial liabilities for the County, the Department will prepare a corrective action plan that it will present to the Board.
 - a. DOF will prepare and submit to the Board a comprehensive report of all audited actual expenditures and expenditures relative to the Department's appropriated budgets.
 - b. OMB will review the Department's expenditures to identify the causes of the overrun.
 - i. The Department will work with OMB to present its findings and a recommended corrective action plan to the Board for action.
 - ii. The corrective action plan may include but will not be limited to placing the Department on a Line Item Budget.

C. Forecasting

1. Forecasting is a process of reviewing actual expenditures and revenue values and estimating the remaining Fiscal Year's expenditures and revenues.
2. Departments and OMB will forecast all elements of the budget based on OMB's requirements.

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3. Each month a Department's expenditures and revenues shall be monitored and reported in order to determine the estimated fund balances and availability of funding for one-time needs.

D. Budget Maintenance Constraints

1. Appropriated Budgets supported by grants, donations or IGAs must be amended by the Board if expenditures are forecasted to exceed the appropriation level. Proposed amendments must be supported by an updated reconciliation of all revenue sources that demonstrates the proposed amendment is fully funded.
2. Appropriated Budgets must be reduced if revenue is forecasted to be significantly less than the current budget.

VIII. FUND BALANCE

- A.** Fund Balances will be estimated and included in the annual budget. Fund Balances may be appropriated for the following specific uses:
 1. Acquisition of fixed assets
 2. Retirement of outstanding debt
 3. Fiscal stabilization by offsetting operating revenue shortfalls due to economic downturns, with adjustments to restore the structural balance of the budget over the economic cycle.
- B.** One-time revenues from the sale of real property, less amounts for contingent liabilities such as environmental clean-up, will be set aside for capital improvements or to retire debt used to finance capital improvements.
- C.** In cases where an expenditure can be funded by more than one component of the Fund Balance, funding will be used in the following order:
 1. First, expenditures will draw on unassigned Fund Balances
 2. Second, expenditures will draw on assigned Fund Balances (if applicable)
 3. Third, expenditures will draw on committed Fund Balances
 4. Fourth, expenditures will draw on restricted Fund Balances
- D.** Fund Balances may be utilized after an expenditure limitation carry forward analysis is completed with the Department of Finance.

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Revision History

Version	Revision Date	Description of Revision
1	10 Dec 2014	Initial Version. This policy will replace and combine the content of B1001, B1006, B1007 and B3001. This new, comprehensive budgeting policy is more direct, succinct and clearly reflects the overall budget process. (C-49-15-021-6-00)
2	04 May 2016	This policy incorporates content from former Policy B4002 regarding Vehicle Replacement as well as B1008 regarding administration of Non-Departmental budgets.