



# Budget Structure & Policies

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## **Budget Structure and Policies**

### **Financial Policies**

Financial policies serve as the guiding principles for the County's financial management and annual budgetary process. Generally, financial policies are desirable in order to maintain or improve an entity's financial position, financial management and credit rating(s). Included in these are specific policies related to reserves, the operating budget, capital improvements, debt, and investments.

It is the policy of the Board of County Commissioners (BOCC) that all financial transactions conducted by or on behalf of Johnson County, its agencies, departments, officials, and authorized agents, shall be made in a manner and method that efficiently and effectively utilizes available financial resources and demonstrates good stewardship in the management of public funds and resources according to established financial management practices, accounting standards, and auditing requirements.

The financial policies adopted by the BOCC shall apply to all elected officials, employees, agencies, departments, boards, commissions, representatives and authorized agents in the performance of their official duties for or on behalf of Johnson County Government.

The BOCC shall be responsible for establishing and authorizing policies for the management of all financial resources and transactions of the County. The County Manager shall be responsible for establishing and maintaining financial procedures, which shall be consistent with existing financial policies. These procedures shall apply to all elected officials, employees, agencies, departments, boards, commissions, representatives and authorized agents in the performance of their official duties.

The BOCC may initiate changes to the existing financial policies at any time. In addition, the County Manager shall review the County's existing financial policies on a periodic basis. If changes to the existing financial policies appear to be necessary and appropriate, the County Manager shall submit a recommendation to the BOCC for consideration and action.

### **Accounting and Auditing**

The County's fiscal year is January 1st to December 31st. It is the policy of the BOCC that:

- the County will follow accounting principles generally accepted in the United States of America applicable to governmental units (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), in the preparation of the County's annual audited financial statements.
- the County will submit to an annual audit by an independent certified public accountant.
- the County will employ an internal auditor to complete an annual audit plan approved by the BOCC.
- the County will prepare a Comprehensive Annual Financial Report (CAFR).
- the County will follow the standards of full disclosure in all financial reporting and debt offering statements.

The Director of Treasury and Financial Management is responsible for establishing a solicitation and selection process for securing professional auditing services from an independent certified public accountant. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers and securing services at competitive prices.

### **Reserves**

Reserves are the difference between the current assets (cash, accounts receivable, investments, etc.) and the current liabilities (salary and wages payable, accounts payable, etc.) of each County fund. Reserves for a governmental entity are generally considered appropriate in order to:

Maintain Working Capital

1. Meet cash flow requirements.
2. Provide contingencies for unpredictable revenue sources.
3. Provide contingencies for emergencies (such as natural disasters) and unpredictable expenditures.

Fund Capital Asset Replacement and Debt Retirement

4. Provide funding for capital asset replacement.
5. Meet debt service covenants/requirements.
6. Prepay outstanding debt.

The appropriate level of reserves for a given governmental entity depends on an analysis of these six (6) factors, along with any statutory requirements or other applicable criteria. It is the policy of the BOCC to maintain prudent reserves for established funds based on these six (6) factors, and all reserve policies shall be analyzed on a periodic basis.

On February 28, 2013, the County adopted a revised General Fund reserve policy. According to the BOCC policy, the annual calculation for the County's General Fund is expected to generate a reserve amount that ranges between 20% and 25% of estimated annual General Fund net revenues (total General Fund revenues, excluding intrafund transfers and General Fund cost allocation).

It is the policy of the BOCC to maintain a reserve in the County's Debt Service Fund and the Library's Debt Service Fund between 5% and 10% of the annual principal and interest amounts due on outstanding bonds, plus 100% of any annual principal and interest amounts due on outstanding temporary notes.

The County adopted a Wastewater fund reserve policy on March 3, 2016 to maintain reserves for the Wastewater fund in an amount sufficient to sustain basic operations for a period of 90 days and no more than 180 days of the budgeted annual Wastewater expenditures.

It is the policy of the BOCC to establish and maintain a reserve, including funding for plan run-out, within the County's Health Care Fund. The amount of the reserve shall be determined annually by the BOCC based upon funding recommendations prepared by the County Manager. The reserve amount for any given year shall not be less than that amount which is determined to provide a reserve level of high minimal funding and the reserve goal for each year shall be that amount which is determined to provide a reserve level of "secure funding". The County Manager and/or his designee shall develop and adopt criteria and procedures, recognized in the health care insurance industry, for determining the high minimal funding level and the secure funding level, but they shall consider the following:

1. The County's average monthly claims.
2. Trending factors for claims and costs.
3. Trending factors for utilization of the fund.
4. Exposure to catastrophic or other cost factors.
5. The ability of the fund to be and remain viable through various experiences.

It is the policy of the BOCC to maintain a minimum reserve between 5% and 10% of budgeted annual expenditures for the following funds:

- Public Works Fund
- Transportation Fund
- Airport Fund
- Library Operating Fund
- Library Special Use Fund
- 911 Fund
- County Building Fund
- Alcohol Tax Fund
- Public Health Fund

It is the policy of the BOCC to maintain a reserve in the County's Developmental Supports Fund and the County's Mental Health Fund between 8% and 12% of budgeted annual Developmental Supports Fund expenditures and budgeted annual Mental Health Fund expenditures.

If the reserve amount for any County fund falls below the minimum established reserve level, the County Manager shall submit a recommended plan to the BOCC as soon as practical, but not to exceed 90 days following receipt of notice from the Director of Budget and Financial Planning and the Director of Treasury and Financial Management, to rebuild the reserve to the minimum level.

### Operating Budget

It is the policy of the BOCC to promote efficiency and effectiveness in the management and operation of County programs and the utilization of available financial resources by the adoption of a balanced annual operating budget for the fiscal year. It is the responsibility of all elected officials, agency directors, department directors, governing boards, and employees to exercise good stewardship in the management of public funds and resources according to applicable statutes, BOCC policies, County procedures, and approved budgets. The County Manager is responsible for recommending a prudent, balanced annual operating budget to the BOCC for adoption.

For Johnson County, a balanced budget is defined as a budget in which projected resources (revenues plus use of reserves) equal projected expenditures. This definition applies to each fund appropriated in the County's budget.

Specific policies related to the operating budget include:

1. The County Manager shall establish the budget calendar for the next operating budget cycle. The budget calendar shall comply with applicable statutes regarding adoption of the annual budget.
2. It is the policy of the BOCC to maintain a Multi-Year Budget Projection of revenues, expenditures, and reserves. The projection shall be reviewed during the annual operating budget cycle and shall be updated periodically due to changes in policy, legislation, and the economy. The projection will cover a minimum of five years.
3. Revenues shall be estimated using a conservative approach to avoid budget shortfalls during the fiscal year.
4. It is the policy of the BOCC to attempt to reduce the County's degree of reliance on ad valorem taxes (i.e., property taxes) for annual operating revenues by pursuing appropriate fees for services rendered.
5. It is the policy of the BOCC that one-time (non-recurring) and unpredictable revenues shall not be used to fund on-going expenditures. On-going expenditures shall be funded with on-going sources of revenue. However, reserves may be used on a short-term basis to offset the impact of economic downturns, so long as adjustments are made to restore the structural balance of the operating budget within one to two fiscal years.
6. It is the policy of the BOCC that the County's annual operating budget will avoid the following situations for the combined budgets of the General Fund and Special Revenue Funds:
  - Two (2) consecutive years of operating deficits.
  - A current operating deficit greater than the previous year.
  - A current operating deficit in two (2) or more of the last five (5) years.

For the purposes of the deficit calculation, total expenditures exclude one-time expenditures that have been approved by the BOCC and are funded through use of reserves (examples would include one-time capital expenditures such as capital projects in the County's Capital Improvement Program).

7. It is the policy of the BOCC to budget and appropriate sufficient funds in each budget year to pay the estimated and expected expenditures occurring during that fiscal year for the payout of accrued vacation and sick leave to employees who have retired or otherwise terminated their employment with the County in good standing.
8. It is the policy of the BOCC that open encumbrances for outstanding purchase orders do not lapse at the end of the fiscal year.

## Capital Improvements

It is the policy of the BOCC to adopt a five-year Capital Improvement Program (CIP), which shall be published on an annual basis. The first year of the annual CIP shall be appropriated as the County's capital improvement budget for the upcoming fiscal year.

The CIP shall be reviewed, evaluated, prioritized, and updated on an annual basis in conjunction with the operating budget cycle. The CIP shall include a schedule of capital improvement projects by year, including the estimated total capital cost, estimated annual operating costs or savings, and anticipated funding source or sources for each project.

The County Manager is responsible for preparing and submitting a preliminary five-year CIP to the BOCC before May 1st of each year as required by the Home Rule Charter of Johnson County. In addition, the County Manager is responsible for submitting a final recommendation for the proposed five-year CIP to the BOCC at least 45 days prior to the statutory deadline for adopting the annual budget.

It is the policy of the BOCC to finance tax-supported projects included in the annual CIP with a combination of pay-as-you-go (cash) financing and debt financing. For each project, pay-as-you-go financing shall be considered first before any debt is issued.

## Debt

It is the policy of the BOCC to maintain or improve existing credit ratings through strong financial management, including the avoidance of short-term borrowing for operations. The County seeks to maintain or improve existing credit ratings since better credit ratings result in lower borrowing costs. To help maintain or improve the County's credit ratings, an established program of managing the County's debt becomes essential.

The BOCC establishes debt management policies to provide a functional tool to ensure that the County's debt is managed in a fiscally prudent manner and in the best economic interest of the County. The debt management policies shall provide general guidelines for debt decisions rather than absolute rules or formulas to determine the level of County debt. Each situation requires a thorough review of the County's debt position, financial health and economic forecast, as well as any mandated or legally imposed obligations.

The County's debt management policies are established to achieve the following objectives:

1. To preserve the public trust and prudently manage public assets to minimize costs to the taxpayers and ensure current decisions do not adversely affect future generations.
2. To maintain the County's ability to obtain access to the municipal bond market at favorable interest rates in amounts needed for capital improvements, economic development, and facilities or equipment to provide essential County services.
3. To minimize borrowing costs and preserve access to credit markets.
4. To seek to minimize debt interest costs whenever prudent in consideration of other cost factors and/or tax burden.
5. To maintain a balanced relationship between debt service requirements and current operating costs, encourage growth of the tax base, actively seek alternative funding sources, minimize interest costs and maximize investment returns.
6. To assess all financial alternatives for capital improvements prior to issuing debt. These could include categorical grants, loans, or state/federal aid.
7. To preserve the County's flexibility in capital financing by maintaining an adequate margin of statutory debt capacity.
8. To maintain compliance with regulatory standards such as, but not limited to, Internal Revenue Service (IRS) codes and regulations.

Additional information on the County's debt management policies is provided in the **Debt Management** section.

## Investments

With regard to investments, the primary objectives of the BOCC are (in order of priority):

1. Safety of principal.
2. Maintenance of adequate liquidity.
3. Maximization of earnings from County funds.

It is the policy of the BOCC that all available funds shall be invested in conformance with legal and administrative guidelines at the highest rates obtainable at the time of investment, and that all investments made by or on behalf of the County shall seek to adhere to the following objectives:

1. Preservation of capital and protection of principal.
2. Security of County funds and investments.
3. Maintenance of sufficient liquidity to meet operating needs.
4. Diversification of investments to avoid unreasonable or avoidable risks.
5. Maximization of return on the investments.

It is the policy of the BOCC that the County shall follow the most aggressive investment guidelines allowed by State law. County funds shall be managed as multiple portfolios in order to meet liquidity needs of the organization while enhancing total yield of the portfolio. The County will always maintain adequate funds in the short term area of our portfolio to cover operations.

It is the policy of the BOCC that the County's cash management practices shall ensure that funds held by, and belonging to, the County are managed in a manner that complies with all State and Federal Laws, and the policies and strategies of the BOCC, and that provides for adequate funds to be available to timely meet all disbursement requirements and obligations of the County.

## **Budget Structure**

According to state statutes, the legal level of budgetary control is the aggregate total expenditures at the fund level. Therefore, the County's budget is organized, adopted, and controlled at the fund level. Once the County has published, adopted and filed the expenditure budget of a given fund, the expenditure authority of that fund cannot, by law, be exceeded without a formal amendment process.

A list of the County's budgeted funds, as well as a classification of agencies and departments by fund, is provided on pages D.4 and D.5 of the **Budget Summary** section. Generally, separate funds are established in response to statutory requirements such as when legislation authorizes counties to levy taxes for some specific purpose. Also, ad valorem tax (i.e., property tax) revenue and mill levies are budgeted at the fund level.

Another rationale for establishing separate funds is when the nature of the operation is sufficiently different to warrant its segregation from other governmental operations. Enterprise funds, which are operated according to distinct and separate accounting principles, are a good example.

It is often desirable to review County operations from a functional, or strategic program, perspective. For example, agencies and departments can be grouped across fund boundaries with other similar County operations to form a consolidated perspective on all County operations within that function, or strategic program. The strategic programs that are currently relevant to Johnson County are Support Services, Records & Taxation, Public Safety, Judicial and Emergency Services, Infrastructure, Health and Human Services, Culture and Recreation, and Debt Service. A breakdown of which agencies are included in each strategic program is included in the **Strategic Programs** section.

## Explanation of Budgetary Basis

Basis of accounting refers to the point in time at which revenues and expenditures are recognized in the budgets and financial statements. The basis of accounting used for purposes of financial reporting in accordance with GAAP is not the same basis used in preparing the annual operating budget.

The budgets for all relevant funds of Johnson County are prepared in accordance with applicable Kansas statutes. The budgets for governmental funds are prepared using the modified accrual basis of accounting, with the following exceptions:

- Operating transfers in are classified as revenues and operating transfers out are classified as expenditures in the annual operating budget.
- Changes in the fair value of investments are not treated as adjustments to revenues in the annual operating budget.

Under the modified accrual basis of accounting, revenues are recognized when the revenues are both measurable and available to finance expenditures of the current fiscal period. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are generally recognized in the accounting period in which the fund liability is incurred.

The accrual basis of accounting is used for proprietary funds. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred.

The budgets for proprietary funds are prepared using the modified accrual basis of accounting. As a result, the following differences exist between the budgetary basis of reporting and the GAAP basis of reporting (accrual basis of accounting) for the proprietary funds:

- Property tax revenues are recognized as revenue in the year collected (and not the year billed) for budgetary purposes.
- Operating transfers in are classified as revenues and operating transfers out are classified as expenditures in the annual operating budget.
- Changes in the fair value of investments are not treated as adjustments to revenues in the annual operating budget.
- Accrued vacation and sick pay benefits are not recognized as proprietary fund expenditures in the annual operating budget.
- Debt service and capital lease principal payments are treated as expenditures in the annual operating budget.
- Debt service interest costs are recognized when due, and not when incurred, in the annual operating budget.
- Depreciation expense is not recognized in the annual operating budget.
- Capital purchases are recognized as expenditures in the annual operating budget. All unencumbered appropriations lapse at the end of the year.

### **Budget Process & Calendar**

In establishing the annual budget calendar for the next operating budget cycle, the County Manager shall consult with the BOCC and finalize the calendar on or before February 1<sup>st</sup> of each year. The calendar shall be designed to allow sufficient time for preparation of budget requests, public comment, staff review, BOCC consideration, and meet publication and submission deadlines established by statute.

The Budget and Financial Planning Department shall release budget request forms and instructions to County agencies and departments by May 1<sup>st</sup> of each year. All agencies and departments shall submit their budget requests according to the instructions and forms provided by the Director of Budget and Financial Planning.

The County Manager will formulate a prudent, balanced annual budget and submit it to the BOCC for consideration at least 45 days prior to the August 25<sup>th</sup> statutory deadline for adopting the annual budget. Once the BOCC has reviewed and modified (if necessary) the proposed budget, the Director of Budget and Financial Planning shall publish the proposed budget, with any modifications, in the County’s official newspaper; additionally the day and time of the public hearing on the budget included in the publication. The public hearing shall be scheduled at least ten (10) days after the date of publication of the proposed budget, but no later than August 15<sup>th</sup> of each year. The BOCC shall hold a public hearing on the date and at the time specified in the publication for the purposes of hearing taxpayer questions and comments concerning the proposed budget. The BOCC shall adopt the annual budget for the following fiscal year on or before August 25<sup>th</sup>.



FY 2017 Budget Development

The following table summarizes the activities undertaken to produce the FY 2017 Budget.

<b>Calendar of FY 2017 Budget Development</b>		
<b>January 2016</b>	<b>February 2016</b>	<b>March 2016</b>
<ul style="list-style-type: none"> <li>Commenced salary forecasting process to compute Estimated 2016, and Budget 2017 salaries and fringe benefits.</li> </ul>	<ul style="list-style-type: none"> <li>Commenced revenue forecasting process to re-estimate current and future revenues.</li> </ul>	<ul style="list-style-type: none"> <li>Capital Improvement Program (CIP) requests submitted by County Agencies and Departments (3-4-16).</li> <li>Operating Budget requests submitted by County Agencies and Departments (3-25-16).</li> </ul>
<b>April 2016</b>	<b>May 2016</b>	<b>June 2016</b>
<ul style="list-style-type: none"> <li>Conducted budget retreat with the BOCC and County Management Team (4-7-16)</li> <li>Submitted preliminary five-year CIP to the BOCC (4-28-16)</li> <li>Personnel Review Committee (PRC) analyzed requests for new positions (FTEs) submitted for FY 2017.</li> </ul>	<ul style="list-style-type: none"> <li>Continued work on the Proposed Budget</li> </ul>	<ul style="list-style-type: none"> <li>Presented Proposed Budget Overview to BOCC (6-2-16)</li> <li>Conducted work sessions with BOCC to review Proposed Budget for specific County Agencies and Departments (6-9-16 to 6-21-16).</li> <li>Presented final revenue estimates to BOCC (6-21-16).</li> <li>BOCC finalized Proposed Budget for newspaper publication (6-23-16).</li> <li>Received final assessed valuation estimates from County Clerk (6-29-16).</li> </ul>
<b>July 2016</b>	<b>August 2016</b>	<b>September 2016</b>
<ul style="list-style-type: none"> <li>Notice of Budget Hearing published (7-16-16)</li> </ul>	<ul style="list-style-type: none"> <li>Conducted Public Hearing on Proposed Budget (8-1-16).</li> <li>Review public hearing input with BOCC (8-4-16)</li> <li>BOCC adopted FY 2017 Budget and CIP (8-11-16).</li> </ul>	<ul style="list-style-type: none"> <li>Updated FY 2017 budget document for final printing.</li> </ul>
<b>October 2016</b>	<b>November 2016</b>	<b>December 2016</b>
<ul style="list-style-type: none"> <li>County Clerk releases final property tax rate (mill levy) information for FY 2017.</li> <li>FY 2017 Budget document is printed.</li> </ul>	<ul style="list-style-type: none"> <li>FY 2017 Budget document is submitted to the Distinguished Budget Presentation Awards Program of the Government Finance Officers Association.</li> </ul>	<ul style="list-style-type: none"> <li>County Clerk releases Annual Abstract of Taxes containing final assessed valuation values.</li> </ul>

**Budget Amendments**

Since the annual operating budget is formulated well in advance of its execution, the BOCC recognizes that it may be necessary to amend the budget of a County fund. If unexpected or unfunded expenditures must be made, department directors are expected to manage their available resources, economize, and reevaluate priorities before requesting a budget amendment.



It is the policy of the BOCC to amend a fund's budget for emergencies, federal and state mandates, or other circumstances which could not be anticipated, and only if sufficient funds are available; a budget may not be amended simply because additional revenues become available. By statute, any budget amendments require formal approval by the BOCC.

The BOCC may authorize an amendment of any current year budget, at the fund level, after giving public notice and holding a public hearing as required by state statute. An amendment is defined as an increase in the published budget authority, at the fund level, for the current fiscal year operating budget. The published budget authority is the total of budgeted expenditures and budgeted reserves for a County fund.

### Procedures

Elected officials, agency directors, and department directors are responsible for submitting requests for budget amendments no later than November 1<sup>st</sup> of each year. The requests will be submitted in a format determined by the Director of Budget and Financial Planning.

The Budget and Financial Planning Department shall review the status of the fund in question and make a recommendation to the County Manager on the disposition of the request. If the County Manager determines that a request for budget amendment is not necessary, he/she will advise the BOCC that an amendment has been requested and denied. The County Manager or his/her designee shall inform the elected official, agency director, or department director of the County Manager's decision. If the County Manager decides that a request for budget amendment is necessary, the Director of Budget and Financial Planning shall prepare and submit an agenda item for BOCC consideration during the weekly business session.

Upon review by the BOCC and action to set a public hearing date, the Director of Budget and Financial Planning shall publish the proposed budget amendment and notice of public hearing in the County's official newspaper. The public hearing shall be scheduled at least ten (10) days later than the date of publication of the proposed budget amendment.

The Director of Budget and Financial Planning shall file any budget amendments approved by the BOCC with the County Clerk no later than December 31<sup>st</sup> of each year.

### **Budget Revisions**

Since the annual operating budget is formulated well in advance of its execution, the BOCC recognizes that it may be necessary to revise the budget of a County agency or department. If unexpected or unfunded expenditures must be made, department directors are expected to manage their available resources, economize, and reevaluate priorities before requesting a budget revision.

A budget revision is defined as a change in the current fiscal year budget expenditure authority for any County agency or department that does not result in an increase in the published budget authority of any County fund. A budget revision may involve changes in the expenditure categories (personal services, contractual services, commodities, capital outlay, etc.) within a single agency or department budget. A budget revision may also involve increasing an agency or department budget and decreasing another agency or department budget or reserve amount within the same County fund.

The County Manager may authorize budget revisions to reallocate budgeted expenditures between departments within the General Fund without formal approval of the BOCC whenever:

1. the reallocation is advisable to carry out the policies and/or priorities established by the BOCC; or
2. the reallocation is necessary to provide responsive service to or for emergency situations.

If the reallocation will materially alter any specific departmental budget or potentially conflict with a policy direction of the BOCC, then prior to authorizing any revision, the County Manager will provide notice to the BOCC.

The County Manager may authorize budget revisions to reallocate budgeted expenditures within an agency or department.

The County Manager may authorize budget revisions to increase the current fiscal year expenditure budget for the General Fund in a cumulative amount up to \$250,000, funded from the General Fund reserve, without approval of the BOCC. Any budget revisions, on a cumulative basis, which increase the General Fund expenditure budget by greater than \$250,000, funded from the General Fund reserve, require approval of the BOCC.

The County Manager may authorize budget revisions to increase the current fiscal year expenditure budget for a County fund, except the General Fund, in a cumulative amount up to \$100,000, funded from the reserve in the relevant County fund, without approval of the BOCC. Any budget revisions, on a cumulative basis, which increase the expenditure budget for a County fund, except the General Fund, greater than \$100,000 require approval of the BOCC.

The County Manager may authorize the increase of the current fiscal year expenditure budget for any County fund in any amount if the increase is funded from unanticipated grant revenue, state contract revenue, or reimbursement revenue.

Budget revisions may not increase the total published budget authority of any County fund.

#### Procedures

Elected officials, agency directors, and department directors are responsible for submitting requests for budget revisions in a format determined by the Director of Budget and Financial Planning. Any requests will include a complete explanation and justification of why it is necessary to revise the current fiscal year budget.

If the County Manager or his/her designee determines that a request for budget revision is not necessary and appropriate, the County Manager or his/her designee shall inform the elected official, agency director, or department director of the decision. The Budget and Financial Planning Department shall maintain documentation for all approved budget revisions.