

# FINANCIAL POLICIES

## I. PURPOSE

The purpose of these financial policies is to give overall direction to Council, management, and employees for the long-term financial operation of the Incorporated County of Los Alamos. This direction is not only intended to be the basic framework for strategic long-term financial planning for the delivery of services to all the citizens and visitors of the County, but is also intended to provide specific policy guidance for the development of the annual budget. These policies may also be used by those who are familiar with County operations to communicate to others how certain community goals are being addressed.

## II. GENERAL POLICY STATEMENT

The Incorporated County of Los Alamos shall strive to maintain a sound financial condition by taking a fiscally conservative and disciplined approach to revenue forecasting, budgeting, capital improvement programming, investing of public funds, and managing its expenditures and debt. This goal will be accomplished by making financial decisions based on the community's ability to pay; maintaining reserves for emergencies and future expenditure demands; and providing future generations with the ability to borrow capital without severe financial burden or undue constraint.

## III. OPERATING POSITION

### A. General Fund Unassigned Fund Balance

The General Fund Unassigned Fund Balance shall be the source used by Council and management to deal with unforeseen contingencies or to fund necessary and worthwhile projects and programs which may arise during the course of the fiscal year but have no specific long-term funding source. Examples include (but are not limited to) the matching of grants, funding of loans to other funds, and providing capital for transfers to other funds. This can also be a source of funds that helps to mitigate the magnitude of adverse budget changes if larger and longer-term negative revenue trends occur. The method to be used for utilization of this account is by formal budget revision approved by the Council.

The target amount to be maintained in the General Fund Unassigned Fund Balance is twenty percent (20%) of General Fund actual revenues. The amount should be adjusted during the course of budget development and re-adjusted based upon audited figures.

The following process must be followed whenever the General Fund Unassigned Fund Balance falls below 15% of actual revenues:

Within 90 calendar days of the acceptance of a Comprehensive Annual Financial Report that indicates that the balance is below the 15% level, the Council must approve a documented plan to rebuild the balance to at least 15% of actual revenues within a period of three fiscal years. The plan may include enhanced or new revenues, reduced expenditures, or a combination utilizing both additional revenue and reduced expenditures. The documented plan must be considered by Council during each annual budget development cycle until the balance is restored to the 15% level.

## FINANCIAL POLICIES

### B. Nonspendable Fund Balance

Nonspendable fund balances are recorded in governmental funds, where the resources cannot be spent to satisfy current obligations. This includes resources that are not in a spendable form (inventories, prepaid amounts, long-term loans/receivables, or assets held for resale) and resources that are legally or contractually required to remain intact, such as the principal balance in the Capital Projects Permanent Fund.

### C. Restricted Fund Balances

Restricted fund balances are recorded in governmental funds, where there are constraints placed upon the use of the resources either by an external party (grants, donations for a specified purpose, bond agreements, etc.) or imposed by law (federal, state, or local). The most significant restricted balances are described below.

1. Restricted for Cash Requirements. The purpose of this balance Restricted for Cash Requirements is to provide a margin to help maintain services during periods of economic decline; meet emergency conditions which may threaten the life, health, or safety of our citizens; meet major unanticipated cash flow shortfalls; and maintain the County's credit rating. The account is established to satisfy the requirements of the State Department of Finance and Administration (DFA) to maintain a cash balance of at least one twelfth of annual General Fund revised budgeted expenditures. The amount to be maintained in the balance Restricted for Cash Requirements is one twelfth (8.3%) of General Fund revised budgeted expenditures. The amount should be adjusted during the course of budget development and re-adjusted based upon audited figures.
2. Restricted for Income Stabilization (in the Capital Projects Permanent Fund). In accordance with County Code section 20-361, the resources in the Permanent Fund in excess of principal are restricted and should be accumulated for eventual transfer to the Capital Improvement Projects Fund or addition to principal.

### D. Economic Development (formerly the Self Sufficiency Fund) Fund Balance Assigned for Economic Development

The purpose of this fund was initially to account for the receipt, management, investment, and expenditure of the \$22.6 million lump-sum buyout payment from DOE that was the negotiated payment the County received under the Atomic Energy Community Act. It was established as a special revenue fund in recognition of the unique circumstances under which the County received the funds and because the use of the funds is intended to be limited.

This fund is not intended to be a permanent fund.

The establishment of this separate fund recognizes:

## FINANCIAL POLICIES

1. The dependence the County has upon actions related to our single largest employer (DOE/LANL) and the impact of decisions made by other entities that may have far reaching and significant effects upon County resources and service levels; and
2. The need to invest and expend the balance in this fund in order to create economic development and diversify the economy, and to decrease the County's dependence upon DOE/LANL.

By County Council direction, the balance in the Economic Development Fund, including interest earnings, should be used for providing initial capital for economic development projects, economic development loans, housing rehabilitation loans, land development, or similar activities which are designed to achieve Council's economic development strategic goals.

### **E. Debt Service Fund Balance Assigned for Debt Service**

The County's Gross Receipts Tax (GRT) taxpayer base is significantly concentrated in a single taxpaying entity. This represents an additional unique risk for the County whenever GRT revenue bonds are outstanding. To help mitigate this additional risk, the County may, at the direction of the County Council, accumulate a fund balance Assigned for Debt Service over and above any legally required debt service reserve amount. Additionally, this balance may accumulate residual interest over and above those funds that are restricted by debt agreements.

### **F. Fund Balances Assigned for Continuing Appropriations**

The fund balances Assigned for Continuing Appropriations segregates a portion of fund balance which reflects part of the unexpended appropriations at June 30th that are re-appropriated and carried forward to the subsequent fiscal year. County Council approval is required through the established formal budget revision process.

### **G. Fund Balance Assigned for Capital Projects**

The fund balance Assigned for Capital Projects segregates a portion of the fund balance in the Capital Improvement Projects Fund to reflect Council's intent that these funds be spent for approved capital projects.

### **H. Fund Balance Assigned for Emergency Response and Recovery**

The fund balance Assigned for Emergency Response and Recovery is reflected in the Emergency Declarations Fund to reflect Council's intent that these funds be spent for recovery efforts in response to federally declared emergencies.

### **I. Fund Balance or Working Capital of Other Funds**

Financial planning for other County operating funds should provide a positive fund balance, the appropriate level of which would be dictated by legal requirements and characteristics of



# FINANCIAL POLICIES

the individual fund and the specific purpose(s) of the fund. These would include, as appropriate:

1. Legal or regulatory requirements affecting revenues and expenditures, e.g., Charter requirements to maintain the real value of the Capital Projects Permanent Fund.
2. Cash flow requirements to support operating expenses.
3. Relative rate stability from year to year for enterprise and internal service funds.
4. Susceptibility to emergency or unanticipated expenditures.
5. Long-term maintenance and replacement plans for infrastructure and equipment.
6. Ability to support debt service requirements.

The financial planning for other County operating funds should avoid large rate increases from one year to the next.

If the “unassigned fund balance” or “working capital balance” becomes excessive within any fund, action shall be taken in the subsequent budget cycles to reduce the balance. Reductions may be accomplished by the deferral of rate increases, rebates to customers, or utilization of funds for one-time expenditures that do not unduly increase ongoing operating expenses.

## IV. INTERFUND ACTIVITIES

### A. General Fund Transfers to Other Funds

Annual transfers of General Fund revenues to other funds should be construed as payments intended only for the support of specific programs. If revenues generated within those funds exceed the budgeted estimates, the amount of the budgeted transfer from the General Fund will be reduced accordingly.

### ~~B. Utility Profit Transfers to the General Fund~~

~~The General Fund shall include a “utility profit transfer” as a source of its annual revenues. The amount of the profit transfer shall be based upon independently audited figures and calculated in accordance with the County Code to ensure that budgeted transfers from the Utility Funds to the General Fund will occur without impact to operations.~~

### C.B. Interfund Loans

Interfund loans are made under the following conditions:

The loan is approved by the County Council.

The County Council shall review and approve the proposed lending terms including interest rate, period of repayment, and other terms.

# FINANCIAL POLICIES

## **D.C. Interdepartmental Charges**

Los Alamos County will use Interdepartmental Charges (IDCs) in order to fully account for all costs of providing services including administrative and indirect support. IDCs will be utilized, particularly for enterprise and internal service fund activities, to account for and recover only those costs where it is determined to be reasonable and cost effective to do so. IDCs will be allocated in an equitable and reasonable manner among benefited departments.

## **E.D. Pooling of Cash and Investments**

Funds which participate in the pooled cash and investments portfolio are allocated investment earnings on a pro-rata basis, for eligible funds. Funds with positive cash balances are credited their pro-rata share of investment earnings, while funds with negative balances are charged interest expense.

## **F.E. Recording of Interfund Transactions**

Whenever interfund transactions occur the County shall record the complete transaction within the financial records. The financial records include the budget, the comprehensive annual financial report, and applicable interim reports.

## **V. OPERATING BUDGET**

### **A. Pay-As-You-Go Operating Budget**

The County shall conduct its operations on a pay-as-you-go basis from available current revenues. To the fullest extent possible, the County shall fund from general revenues those activities that generally benefit a significantly large number of County citizens. Activities that benefit a small portion of the community should be funded directly by those benefited through user fees in accordance with the adopted "User Fee Policy" rather than through general County resources.

To carry out these policy objectives, the County will adhere to the following practices:

1. The County will fund annual operating expenses from current revenues and available fund balances consistent with these financial policies.
2. The County will only fund a new recurring activity if there is an assured funding source for continuing the activity.
3. To initiate new General Fund supported activities, trade-offs of existing activities must first be considered by the County, unless there is a new revenue source available to fund such activities.
4. The County will review existing activities annually to determine the need to continue or modify them.

## FINANCIAL POLICIES

The County shall observe the following practices regarding the management of its resources:

1. The County will encourage economic development activities to broaden its tax base.
2. The County will minimize its General Fund contributions to fund special activities that can be supported by dedicated tax revenues or user fees.
3. The County will annually plan and budget for a reasonable level of maintenance to existing major infrastructure including streets and facilities in order to minimize lifecycle costs.
4. Services for the public or others that can be accomplished effectively by outside agencies for less cost will be performed by an outside agency instead of the County.
5. The County's compensation program will be competitive to attract and retain motivated and high-performing staff members.
6. The County will coordinate the operating and capital budgets so that future capital needs will be integrated with projected operating requirements.
7. The County will seek regional cooperation and funding for any program that has regional benefits.
8. The County will only participate in intergovernmental programs that are consistent with the long-term vision and goals of the County.

While observing these practices, the County will strive to prepare a "balanced budget" that adheres to the following definition:

An individual fund's adopted budget is considered balanced if the current year estimated revenues, plus transfers in from other funds, plus appropriations of fund balance is at least as much as the current year estimated expenditures, plus transfers out to other funds. This condition must be true for the single annual budget and in total for the projected following three years.

The entire County budget is considered balanced when each individual fund budget is balanced. When looking to see if a fund has a balanced budget, the use of (or appropriation of) fund balance is considered a satisfactory source for balancing the budget if the fund balance is already restricted, committed, or assigned for such use. For example, using the assigned fund balance in the Capital Improvement Projects Fund as a source for capital projects, even with no other current revenues or operating transfers in, is a legitimate use and would balance the budget. On the other hand, using the unassigned fund balance in the General Fund as a source for regular ongoing operations for multiple years would not be a preferred use and if it was necessary, the budget would not be considered balanced.



## **FINANCIAL POLICIES**

### **B. Revenues**

The County shall observe the following practices to manage its revenues effectively:

1. Encourage economic development activities to broaden the County's tax revenue base.
2. Pursue state-wide tax structure revisions to obtain the greatest tax source flexibility for the County.
3. Aggressively collect revenues and coordinate revenue reporting with appropriate parties.
4. To the fullest extent possible and when appropriate, establish user fees and charges at levels which recover the full costs of providing the services.
5. Review fees and charges annually, and develop a system for periodically changing rates to keep pace with changes in the costs of providing services.
6. Charge fees for all services that benefit limited interests within the community with the exception of human services needs for persons with limited ability to pay.
7. Whenever possible and practical, use multi-year forecasting techniques and tools in order to detect in advance significant changes in revenue.
8. Use one-time revenues for one-time expenditures whenever appropriate.
9. Provide management with regular reports comparing actual revenue to budget estimates.

### **C. Expenditures**

The County shall observe the following practices to manage its expenditures effectively:

1. Ensure that the expenditure growth rate will not exceed the revenue growth rate.
2. Where possible, use performance measures and productivity indicators and integrate them into the annual budget.
3. Analyze all costs of a service and make cost projections for at least three years before increasing a level of service or adding new services.
4. Take advantage of changing technology, improved systems, and management techniques whenever available in order to reduce long-term costs and improve productivity.
5. Eliminate any program or service which is no longer necessary.

## **FINANCIAL POLICIES**

6. Before undertaking any agreements that would create fixed costs, determine fully and project for at least three years the cost implications (both operating and capital) of such agreements.
7. Whenever possible and practical, use multi-year forecasting techniques and tools in order to detect in advance significant changes in expenditures.
8. Prior to any change in the salary and benefit level, prepare a complete cost analysis and multi-year year projection of salaries and benefits.
9. Provide management with regular reports comparing actual expenditures to budgeted appropriations.
10. Transfers into or out of budget line items for salaries or employee benefits may be made only after the County Manager has approved the transfer.

### **D. Grants**

The Council shall review and approve non-recurring grants during the fiscal year. The annual budget will recognize non-recurring grant revenues and expenditures only after Council acceptance of such grants.

Prior to accepting any grant, the County shall analyze the cost-effectiveness of the grant. The analysis should include the consistency of the grant with the County vision and long-term goals, the full costs associated with administering the grant including indirect support for grant management, accounting and auditing, the feasibility of continuing the program with County resources after the conclusion of grant funding, and that the program offered by the grant will benefit a significant number of County citizens.

## **VI. INVESTMENTS**

County funds will be invested in accordance with State law, the Charter, the County Code and the adopted Investment Policy.

The County will apply the prudent investor rule to all its investments. This standard states that investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income to be derived.

All idle cash shall be continuously invested at the highest available rate, but only in instruments allowed under the investment policy. Disbursement, collection, and deposit of all funds will be scheduled to ensure maximum cash availability and investment earnings.



## **FINANCIAL POLICIES**

### **VII. CAPITAL IMPROVEMENT PROGRAMMING, FINANCING, AND MAINTENANCE**

#### **A. Capital Improvement Programming**

In developing the County's capital improvement projects, the County shall evaluate the need for the capital project and its urgency; perform a long-term cost-benefit analysis of the project; determine the financing sources available for the project and the project's impact on the County's ongoing operating and maintenance costs; and plan for its future replacement.

Highest priority capital improvement projects should be those projects deemed necessary to remedy deficient conditions adversely impacting safety, health, and security; those projects necessary to meet mandatory federal, state, and local legal requirements; those projects which represent a phase of an approved master plan or represent ongoing implementation of phased projects approved in previous years; or those projects which maintain the structural or architectural integrity of existing infrastructure.

#### **B. Capital Improvement Financing**

Annually, a 10-year Capital Improvement Program (CIP) will be updated and incorporated into the Long Range Financial Projection (LRFP). The process of updating the CIP will include evaluating new proposed major CIP projects (over 1% of the General Fund's operating budget) and prioritizing them with already approved projects, as well as adding a new year to the plan. It will not include a comprehensive re-evaluation of all projects already included in the CIP. Those, generally, should proceed as previously programmed.

CIP projects will not be funded unless they are included in the approved CIP budget. Addition of new projects to the CIP will be contingent upon identifying the funding sources for all phases of the project and committing, through Council approval, all such sources.

The annual budget, the LRFP, and the 10-year CIP should include sufficient funding for adequate maintenance and the orderly replacement and/or upgrade of all capital plant and equipment. All County assets should be maintained at a level that protects the initial capital investment and minimizes future maintenance and replacement costs. Prior to approval of any capital project, the future maintenance and operational costs of the project must be fully analyzed and those costs must then be included in the approved LRFP for full disclosure of the long-term maintenance and operating impact of the project. The annual budget should include funding for capital programs as identified in the CIP.

The County will actively pursue external long-term financing in accordance with its Debt Management Policy. The County will also pursue external grant funding for CIP project financing whenever it is available and practical to do so.

#### **C. Capital Plant Maintenance**

The County shall establish and maintain an inventory showing the condition of its capital plant and shall develop long-term replacement schedules for use in setting priorities and capital financing plan development.

## **FINANCIAL POLICIES**

### **VIII. DEBT MANAGEMENT**

The County will manage its debt in accordance with its adopted Debt Management Policy.

### **IX. LONG RANGE FINANCIAL PROJECTION**

The County Manager will, as an initial step in the development of the annual budget, present to Council for consideration and approval a Long Range Financial Projection (LRFP). This action recognizes that short-term financial plans (annual budgets) need to be placed within a long-term context to be effective and properly coordinated from year to year. Approval by Council indicates their long-range financial policy direction.

The projection will cover 10 years, and will include operational and capital budgets that impact the General Fund.

The projection will be updated at least annually. Updating includes:

- A. Adding new items from the updated CIP, including the operating impact of new capital items;
- B. Reviewing and updating assumptions used for forecasting purposes;
- C. Adding any changes which reflect more current information and significantly change the projection; and
- D. Determining the financial effect of any significant changes in County policy.

Only the annually adopted budget appropriates funds for expenditure. However, the annual budget should be developed to fit within the context of the LRFP. The LRFP should be approved annually concurrently with the annual budget. This approval shall not be construed as agreement with every aspect and assumption within the plan, but shall be considered as a formal acknowledgment of the projected potential long-term impact of adoption of the annual budget.

### **X. ACCOUNTING & FINANCIAL REPORTING**

The County shall follow a high standard in all financial reports by:

- A. Preparing appropriate financial reports in accordance with Generally Accepted Accounting Principles (GAAP);
- B. Making all possible and ethical efforts to obtain unmodified independent auditors' opinions on every annual report;
- C. Adopting a spirit of "full disclosure" in preparing annual reports;
- D. Refraining from the use of "creative accounting" to defer costs or hide long-term problems;

# FINANCIAL POLICIES

E. Disclosing within interim reports or analysis all pertinent assumptions which may impact decision making; and

F. Minimizing the number of funds and accounts to prevent unnecessary complexity and cost of maintaining and auditing the records while maintaining ease of reporting.

## XI. UTILITIES BUDGET

As required in the section 506 and 509 of the County Charter and Chapter 40 of the County Code, the Department of Public Utilities shall prepare the Department's proposed budget for presentation to and consideration by the Board of Public Utilities (BPU) and County Council.

The proposed budget shall also include 10-year projections of rates and revenues, funding of reserves (the Schedule of Funds) and Capital Project Program Plan. These projections shall be reviewed and approved by the Utility Manager and County Manager their designees prior to presentation to BPU and Council for their approval in order to ensure adequate and appropriate articulation and reconciliation between these projections and the County's financial statements.

The Schedule of Funds shall identify both targeted reserve balances and annual budgeted funding levels. Individual reserves shall be recorded and reflected in the general ledger at the sub-fund level.

The targeted reserve balances are set and managed in accordance with the Utilities Financial Policies as approved by BPU and County Council (as required per County Code Section 40-45).

## XI.XII. PERFORMANCE MEASURES

The County will develop strategic and program performance measures to be used as a component of decision making and to be incorporated into the budgeting process. The performance measures should:

- A. Be based upon program goals and objectives that relate to a statement of program purpose that are developed within the context of broader strategic goals and objectives;
- B. Measure program results or accomplishments;
- C. Provide for comparisons over time;
- D. Measure efficiency and effectiveness;
- E. Be reported internally and externally;
- F. Be monitored and used in decision-making processes; and



## **FINANCIAL POLICIES**

G. Be limited to a number and degree of complexity that can provide an efficient and meaningful way to assess the effectiveness and efficiency of key programs.

### **GLOSSARY OF TERMS**

#### **Advances**

An account used to segregate a non-spendable portion of fund balance to indicate the noncurrent portion of long-term interfund receivables that do not represent expendable and available financial resources. This accounting is established by GAAP and is used by the County for interfund loans--particularly from the General Fund to other County funds.

#### **Capital Projects**

An account that assigns a portion of the fund balance that reflects money set aside for capital improvement projects.

#### **Cash Requirements**

An account which restricts a portion of the fund balance within the General Fund that is equal to one twelfth of General Fund revised budgeted expenditures. The amount is segregated to provide a margin to help maintain services during periods of economic decline; meet unanticipated cash flow shortfalls; meet emergency conditions which may threaten the life, health and safety of our citizens; and maintain the County's credit rating.

## **FINANCIAL POLICIES**

### **Cemetery Perpetual Care**

An account used to restrict a portion of the fund balance in the General Fund, which by contract with the purchasers of cemetery lots, is restricted for future care of the cemetery. When the cemetery is fully developed and all lots are sold, the interest earnings from this reserve will be used to guarantee the maintenance of the cemetery property.

### **Committed Fund Balance**

A "committed fund balance" is a portion of the fund balance that is required by County code to be used for a specific purpose.

### **Continuing Appropriations**

An account used to assign a portion of fund balance which reflects part of the unexpended appropriations at June 30th that are re-appropriated and carried forward to the subsequent fiscal year. Council and County Manager approval is required through the established formal budget revision process.

### **Debt Service**

An account used to restrict the fund balance in the Debt Service funds to demonstrate that this balance is only expendable for debt service purposes as required by provisions of individual legal debt instruments. Additional fund balance amounts may be assigned by Council.

### **Fund Balances**

"Fund Balance" is generally defined as the difference between fund assets and fund liabilities of governmental type funds. In enterprise and internal service type funds, "Retained Earnings" is a similar concept. The State Department of Finance and Administration (DFA) is required to report local governments' fund balances at the end of each fiscal year to the state legislature. Los Alamos County shall record certain restrictions and commitments of fund balance which have specific and/or legal future local uses.

### **Grants**

An account used to restrict a portion of fund balance for expenditure once certain grant requirements are met. This account is established by GAAP and by conditions of the grant award.

### **Health Care Assistance**

An account used to restrict the full fund balance in the Health Care Assistance Fund to demonstrate that this balance is only expendable on the specific activities allowed by the applicable statutes. This reserve is established by the statutory restrictions on the second County increment of Gross Receipts Tax revenue and may be expended with Council approval only for those allowed purposes. Further information, restrictions, and guidelines are contained in the Council approved Health Care policy which is updated periodically.

## **FINANCIAL POLICIES**

### **Inventories**

An account used to segregate a non-spendable portion of fund balance because supplies inventories are not readily available financial resources. This accounting is established by GAAP and is limited to warehouse stock and golf course pro shop inventory items.

### **Lodgers Tax**

An account used to restrict a portion of fund balance in the Lodgers Tax Fund which is planned for promotional activities or expenditure on specific capital infrastructure items allowed by statute. This restriction is established by the statutory restrictions on the lodgers tax revenue and may be expended with Council approval only on those allowed purposes.

### **Prepaid Items**

An account used to segregate a non-spendable portion of fund balance which is not available for expenditure. This accounting is established by GAAP.

### **Restricted Fund Balances**

A "restricted fund balance" is a portion of the fund balance that has external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislations which require the resources to be used only for a specific purpose.

### **Unassigned Fund Balances**

The amount of the fund balance that is totally available for appropriation for any legal purpose. This term is limited in usage to governmental type funds. In proprietary type funds "working capital" is a similar concept.