



# Financial Policies and Schedules

## **BASIS OF BUDGETING**

The Capital Improvement Plan and Budget are prepared using generally accepted accounting principles. The accounts of the County are organized on the basis of fund and organizational groups, each of which is considered a separate accounting entity. Governmental type funds like the General Fund, Special Revenue Funds, Capital Projects, and Debt Service use modified accrual basis, while Proprietary Funds use the full accrual basis.

Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. Measurable means the amount of the transaction is known; available means the revenue will be collected in the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred, except for principal of and interest on general long-term debt which are recognized when due.

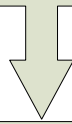
Full accrual is essentially the same manner as commercial accounting. Recognition occurs at the time of the transaction – revenue when earned and expenses when incurred.

The chart on the following page shows a typical Capital Improvement Plan cycle:

## CAPITAL IMPROVEMENT PLAN PROCESS

**JULY—DECEMBER**

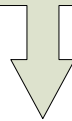
The Chief Executive Officer, along with the Board of Supervisors and departments establishes the operating and capital budget priorities and principles for the next fiscal year based on the County Strategic Plan and relevant economic, social, and demographic trends.



**JANUARY—MARCH**

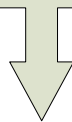
Upon release of the Governor's Proposed Budget, the Chief Executive Officer prepares a preliminary forecast of the County's discretionary revenue for the coming year based on assumptions and projections contained in the Governor's Proposed Budget and other projected revenue trends.

Instructions for preparation of the upcoming Capital Improvement Plan are issued to departments in March.



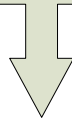
**APRIL—MAY**

CEO staff reviews the data, updates the CIP database, analyzes the estimated project cost and meets with departments regarding their CIP submittals. Budget analysts are preparing the proposed budget during the same time period so they are aware of both CIP and budget requests. The Assistant Executive Officers review and prioritize all current projects. CEO staff prepares the Preliminary CIP Project List.



**JUNE**  
**PRELIMINARY CAPITAL PROJECT LIST AND PROPOSED BUDGET**

The Board of Supervisors holds a public hearing to discuss and adopt the Preliminary CIP Project List and the Proposed Budget.



**JULY—OCTOBER**

**FINAL CAPITAL IMPROVEMENT PLAN AND FINAL BUDGET**

The Preliminary CIP Project List is sent to the Department of Planning and Community Development. The Planning Commission then determines whether the Preliminary CIP is in conformance with the County's General Plan. The analysis report and Commission findings are forwarded to the County Board of Supervisors. A Final Capital Improvement Plan is then prepared and adopted by the Board.

## DEBT CAPACITY

Entities who borrow funds are given a credit rating based upon rating companies' analysis of their ability to repay their debt on a timely basis. Rating agencies consider the entity's historical and prospective financial condition, quality of management, operating performance, as well as the developments in the economic and political environment that strengthen its financial strength and credit quality, among other factors. The County most recently evaluated their debt capacity in Fiscal Year 2007-2008; however, it will conduct a financial analysis in Fiscal Year 2011-2012 related to several detention facility construction projects with various sources of funding.

### Budget Year 2011-2012 Debt Service

#### Certificates of Participation

The County of Stanislaus debt is primarily in the form of Certificates of Participation (COP). Created in conjunction with lease agreements, which encumber County-owned property. COPs are securities issued and marketed to investors in a manner similar to tax-exempt bonds.

In a COP transaction, the County enters into an agreement with a third party, the Stanislaus County Capital Improvements Financing Authority, to lease an asset (normally a building) over a specific period of time at a predetermined total cost. The asset, owned by the County and leased to the Finance Authority, is then subleased back to the County. In this transaction the Finance Authority sells certificates in order to make its total lease payment to the County at the beginning of the lease period. With that lump sum (advance) lease payment the County then builds or buys the property.

The following chart reflects each outstanding Certificate of Participation (COP) financing by activity, the interest rate as a percent, the original date of issuance, the date of maturity, the original amount borrowed, the balance as of June 30, 2011, the current debt obligations for Stanislaus County for Budget Year 2011-2012, and the remaining balance to maturity once the debt obligation payments are made during the budget year.

|   | Interest Rate % | Date of Issue | Maturity | Original Borrowing   | Balance to Maturity as of June 30, 2011 | 2011-2012 Debt Obligation Principal | 2011-2012 Debt Obligation Interest | Remaining Balance to Maturity |
|---|-----------------|---------------|----------|----------------------|---|-------------------------------------|------------------------------------|-------------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>  |                 |               |          |                      |   |                                     |                                    |                               |
| 1997 Series B Refunding Kitchen/Laundry at the Sheriff's Public Safety Center   | 3.75-5.00       | 12/16/1997    | 6/1/2012 | \$9,265,108          | \$1,311,758                             | \$1,311,758                         | \$65,588                           | \$0                           |
| 1998 Series A Public Administration Center 10th Street Place  | 3.75-4.75       | 3/1/1998      | 9/1/2018 | \$22,160,000         | \$11,585,000                            | \$1,220,000                         | \$539,913                          | \$10,365,000                  |
| 2004 Series A Gallo Center for the Arts   | 1.63-4.38       | 3/26/2004     | 9/1/2025 | \$15,340,000         | \$12,345,000                            | \$640,000                           | \$471,439                          | \$11,705,000                  |
| 2004 Series B 12th Street Office & Parking Garage, Nick W. Blom Salida Regional Library   | 1.63-4.38       | 3/26/2004     | 9/1/2025 | \$27,455,000         | \$22,085,000                            | \$1,140,000                         | \$843,512                          | \$20,945,000                  |
| 2007 Series A Refunding Community Services Facility, Public Safety Center, Minimum Security Facility, Sheriff Operations Center, Agricultural Center, Ray Simon Training Center | 3.65-5.75       | 2/1/2007      | 5/1/2018 | \$40,540,000         | \$27,450,000                            | \$3,700,000                         | \$1,263,288                        | \$23,750,000                  |
| <b>TOTAL GOVERNMENTAL ACTIVITIES:</b>   |                 |               |          | <b>\$114,760,108</b> | <b>\$74,776,758</b>                     | <b>\$8,011,758</b>                  | <b>\$3,183,740</b>                 | <b>\$66,765,000</b>           |
| <b>BUSINESS TYPE ACTIVITIES:</b>  |                 |               |          |                      |   |                                     |                                    |                               |
| 1997 Series B Refunding California Health Facilities Financing Authority (CHAFFA)   | 3.75-5.00       | 12/16/1997    | 6/1/2012 | \$1,364,892          | \$193,242                               | \$193,242                           | \$9,662                            | \$0                           |
| <b>Total</b>  |                 |               |          | <b>\$116,125,000</b> | <b>\$74,970,000</b>                     | <b>\$8,205,000</b>                  | <b>\$3,193,402</b>                 | <b>\$66,765,000</b>           |

#### Ratios

A number of ratios can be applied to the County's debt service. For Budget Year 2011-2012, the County's total gross debt obligation for its General Fund is \$11,466,218 and the total Recommended Proposed Budget is \$894,271,968. The ratio comparing the annual debt service to total budget shows that debt service represents only 1.28% of the total budget. In addition, a comparison of debt service to

discretionary revenue can be obtained by dividing the total gross debt obligation (\$11.5 million) by the total Discretionary Revenue Budget of \$140,029,000. This analysis shows that debt service payments represent 8.2% of the total Discretionary Revenue Budget. As a result of the County's significant use of one-time funding, Standard & Poor's Rating Services revised their outlook to negative from stable for Stanislaus County.

## **PUBLIC FACILITY FEES (PFF)**

The Public Facilities Fee program imposes a fee on new development per Section 66000 et seq. of the California Government Code. Commonly known as a “growth impact fee,” revenues collected under this program support the pro-rata extension of existing County services to support the new growth created by the development. This fee provides for the expansion of facilities or services to meet growth needs, but does not replace, repair or maintain the existing level-of-service provided by the County.

Many anticipated projects are listed in the Capital Improvement Plan (CIP) -- those that may support the expansion of existing County services are noted as being eligible for use of Public Facilities Fees. A project's eligibility for funding is also contingent upon the amount of fees available in the appropriate service category for which the fee is collected, other commitments for use of the available fees, and the priorities for service to the growing community. Each project is reviewed by the County's Public Facilities Fees Committee, and subsequently submitted to the Board of Supervisors for final funding recommendations and action.

Public Facility Fees cannot be more than the cost of the public facility needed to mitigate growth impacts and can only be used for intended purposes. The determination of the quantity of the above listed items to serve the forecasted population growth requires the adoption of standards. These standards establish the level of service for existing and future County infrastructure. Standards are stated in terms of space, services and/or use per capita. A per unit of cost is also used to calculate a correct public facility fee amount. New development cannot be held responsible for a higher standard than exists for the current population.

Public Facilities Fees are typically reviewed and adjusted annually to reflect anticipated costs; and the basis for the fees (including projected population and growth impact assumptions) is updated on a five-year review cycle.

Use of Public Facilities Fees funding for any project is subject to the review and recommendation of the County's Public Facilities Fees Review Committee and subsequent approval by the Board of Supervisors.



## WHAT IS A CIP FINANCIAL SCHEDULE?

### SAMPLE

| ESTIMATED PROJECT COSTS             |                      | FUNDING SOURCES                |                      |
|-------------------------------------|----------------------|--------------------------------|----------------------|
| Preliminary                         | \$ 2,000,000         |                                |                      |
| Design                              | \$ 2,000,000         |                                |                      |
| Acquisition                         | \$ -                 |                                |                      |
| Construction                        | \$ 22,000,000        |                                |                      |
| Other                               | \$ -                 | <b>Total County Funding</b>    | \$ -                 |
|                                     |                      | State/Federal Funding          | \$ 18,000,000        |
|                                     |                      | Other--Grants                  | \$ 3,000,000         |
|                                     |                      | <b>Total Other Funding</b>     | \$ 21,000,000        |
|                                     |                      | <b>Non-County Contribution</b> | \$ -                 |
| <b>Total Estimated Project Cost</b> | <b>\$ 26,000,000</b> | <b>Total Project Funding</b>   | <b>\$ 21,000,000</b> |
|                                     |                      | Funding Not Yet Identified     | \$ 5,000,000         |

### ESTIMATED PROJECT COSTS

Each project includes estimated project costs in the following five categories: Preliminary, Design, Acquisition, Construction and Other. The categories are defined below.

| ESTIMATED PROJECT COSTS |   |
|-------------------------|---|
| <b>Preliminary</b>      | Preliminary costs include County staff costs for review and coordination with State and other agencies. Roads may use the following definition. Preliminary engineering includes project management, preliminary and final engineering design costs including payments to consultants and/or in-house labor and project expenses. This phase consists primarily of development of draft construction documents, and all pre-construction project coordination and clearance activities such as completion of environmental clearance and permit contact with other public agencies, utilities, and resource agencies. |
| <b>Design</b>           | Design includes programming (including studies), schematic design, design development, construction documents, seismic evaluation, design support from construction management firms, and peer review of design and construction documents.   |
| <b>Acquisition</b>      | Acquisition of land, existing buildings, or equipment and vehicles. The Public Works Department uses the following definition. Right-of-Way/Acquisitions consist of right-of-way costs for capital projects, including appraisal, survey services, and research, as well as purchase transactions and any associated assistance. Property acquisition is typically initiated and normally completed during this phase.  |

| <b>ESTIMATED PROJECT COSTS</b>      |  |
|-------------------------------------|--|
| <b>Construction</b>                 | Construction includes the cost of the construction contract, the cost of the bidding process, construction management costs, demolition costs, administrative, contingency, Construction Management Firms and site visits by Architect and Engineer Designers. Construction costs include construction management, contract costs, inspection and engineering support labor, survey and engineering costs, contracted laboratory, consulting, or other inspection services, and community coordination. Costs for furniture, fixtures and equipment (FF &E) are also appropriate in this section. Costs may also include secondary contracts such as landscape maintenance or resource mitigation installation and compliance. |
| <b>Other</b>                        | Other costs such as professional fees and development fees, California Environmental Quality Act (CEQA), permits, County building department reviews, easement fees and utility connection fees.   |
| <b>Total Estimated Project Cost</b> | The sum of the Preliminary, Design, Acquisition, Construction and Other costs equals the Total Estimated Project Cost.   |

**FUNDING SOURCES**

Project funding is identified as potential sources for proposed projects for planning purposes. Funding sources for many projects is speculative and is subject to change as project demands, budgetary limitations, implementation schedules and other conditions change. Some projects have been identified in concept, but specific funding sources have not yet been identified. Projects in development or closer to implementation (such as the A-Approved/Funded and B-Pending Implementation categorized projects) list project costs and funding sources more definitively than long-range project concepts.

County funding may include use of County General Funds, Public Facilities Fees, Department Fund Balance or Retained Earnings, or funds generated through a public financing. Each project plan and funding plan is reviewed and approved by the Board of Supervisors prior to implementation. Inclusion of a project in the Final Capital Improvement Plan alone does not constitute Board approval to proceed with implementation of the project.

Other funding sources may include use of State or Federal funds, grants, or contributions by others toward the project. Many projects are joint development efforts with other agencies or private parties for which other, non-County contributions may be earmarked.

Project costs and funding sources are reviewed annually in the Capital Improvement Plan.



| <b>FUNDING SOURCES</b>            |   |
|-----------------------------------|---|
| <b>Total County Funding</b>       | The County's portion of the project costs would be identified from the sum of County General Fund contributions, Public Facilities Fees, Department Fund Balance, Retained Earnings and any bond or borrowing.  |
| <b>State/Federal Funding</b>      | Funding provided by either State or Federal funding programs.   |
| <b>Other—Grants</b>               | A grant is a contribution by a government or other organization to support a particular function. Grants may be classified as either "block" (annual set amount designated for an organization) or "competitive" (variable amounts determined by the merits of the grant submittal compared to other competing submittals). |
| <b>Total Other Funding</b>        | The sum of State/Federal Funding and any other funds obtained through Grants. Stanislaus County is obligated to manage, properly allocate, and expend funds received from State/Federal agencies and grants.  |
| <b>Non-County Contribution</b>    | Funding provided to Stanislaus County from a non-County source, such as another city, county or irrigation district. This can include contributions received from any private entity or citizen.  |
| <b>Total Project Funding</b>      | Total County Funding plus Total Other Funding plus Non-County Contribution equals the Total Project Funding.  |
| <b>Funding Not Yet Identified</b> | The difference between Total Estimated Project Costs and the Total Project Funding equals the Funding Not Yet Identified.   |