

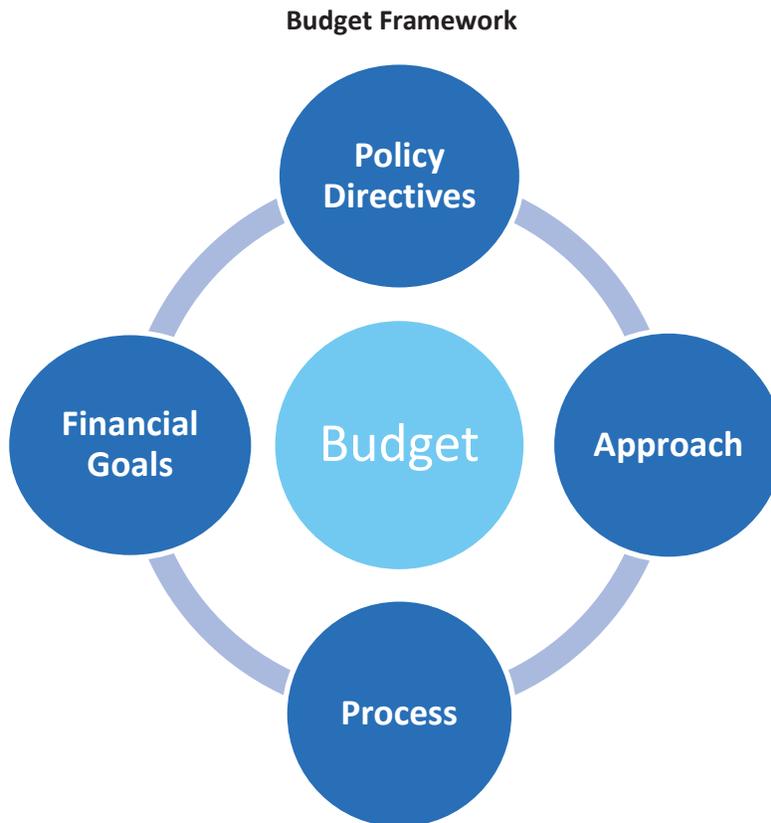
## Section III – BUDGET PREPARATION

### Annual Budget Process

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Garfield County prepares a budget for the forthcoming fiscal year as required by Local Government Budget Law of Colorado. The Finance Department Director is designated as the responsible party for preparing the budget and submitting to the Board of County Commissioners. Preparing the budget is a lengthy process that begins in the second quarter and culminates in the final presentation of the budget in November of the current year. The County’s budget development process provides a comprehensive and participatory methodology for creation of a budget plan that addresses the needs of residents through effective management of County resources. The budget process provides ample opportunity for public review and comment.

First a discussion takes place with the Board of County Commissioners to review preliminary projections and establish the approach in preparing the budget. The purpose of this discussion is for the BOCC to provide direction on short-term and long-term planning, provide guidelines for developing the budget and to define priorities to aid in final decision-making.



Guidance provided during this discussion includes defining policy directives in terms of broad goals, specific projects and staffing levels for 2018, long range objectives for 2018 and beyond. Financial strategies, contingency planning and desired reserve levels, debt issuance and management are also considered. Guidance on the preferred budget approach defines the relationship between revenues and expenditures, i.e. policy on balancing the budget, and the budget methodology used as the basis for initializing the budget within the accounting system.

The direction received from the BOCC is then presented to Elected Officials and Department Heads at the annual budget kick-off meeting. At this meeting, budget managers for all County offices and departments are provided with the forms, schedules and instructions they need to prepare their budget for the upcoming year. The calendar for the preparation of the 2018 budget was as follows:

<b>Event/purpose</b>	<b>Date/Deadline</b>	<b>Responsibility</b>
<b>2018 Budget Strategy &amp; Direction</b>	June 13, 2017	BOCC
<b>2018 Budget Kick-Off Meeting</b>	July 19, 2017	Budget Officer
<b>2018 Base Budget Information Due</b>	August 18, 2017	Department and Office Budget Managers
<b>Department/Office Budget Reviews</b>	Sept 11-22, 2017	Budget Officer, BOCC Representative, Budget Managers
<b>2018 Proposed Budget Presentation</b>	October 2, 2017	Budget Officer, BOCC
<b>2018 Proposed Budget Public Hearings</b>	October and early November 2017	Budget Officer, BOCC, Department and Office Budget Managers
<b>2018 Final Budget Adoption</b>	November 13, 2017	Budget Officer

During the County’s strategic planning process, departments and offices define their goals and objectives for the upcoming year. These goals and objectives assist the budget managers in preparing their department or office budgets and are detailed in Section II – STRATEGIC PLAN. All revenue, operating and capital expenditure and staffing budgets are submitted to the Finance Department Head by the deadline established in the budget calendar (C.R.S. 29-1-105).

This expenditure and revenue data is then compiled by fund, reviewed and modified as needed and a consolidated preliminary countywide budget model is prepared. Various budget scenarios are then developed using different revenue, expenditure and fund balance assumptions in conjunction with the budget goals and objectives of the Board of County Commissioners.

In addition to operational and personnel-related expenses, non-recurring expenditures must also be submitted. Non-recurring expenditures include specific expenses that are not recurring operating expenditures, but are generally one-time purchases such as capital equipment, infrastructure or facility projects, or other special projects. Requests for these one-time expenditures are submitted using a capital expense request worksheet. If a non-recurring expenditure was budgeted for the current year, but the full expenditure has not occurred (e.g. a project was not completed this year and must be completed the next year), this expenditure will not automatically carry forward. It must be re-budgeted.

Once the preliminary budget numbers have been received a series of reviews takes place with each of the departments, County Administration and a representative from the BOCC.

## Financial Policies

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### Purpose

The purpose of Garfield County's financial policies are to serve as a foundation for long and short range planning, facilitate decision making, and provide direction to staff for handling the County's day-to-day financial business. These policies also serve as a blueprint to achieving the fiscal stability necessary to carry out the County's mission, vision and values. Because of the broad and diverse nature of the County's offices and departments it is critical to have written, clearly defined, financial policies which minimize the risk of developing conflicting or inconsistent goals and objectives causing negative impacts on the overall financial position of Garfield County. Garfield County's financial policies are as follows:

### Auditing and Financial Reporting

- An independent audit will be performed annually in accordance with State law (C.R.S. 29-1-603).
- The County's accounting system shall be maintained in conformance with Generally Accepted Accounting Principles (GAAP) established by the Governmental Accounting Standards Board (GASB) and with the goal of obtaining an unqualified opinion from the independent auditor.
- The County will produce its Comprehensive Annual Financial Report (CAFR) in conformance with GAAP.

### Fund Accounting

Pursuant to GASB 34 the principal role of funds in the new financial reporting model is to demonstrate fiscal accountability. While there are no limits to the number of individual funds a government elects to use, a basic principle of governmental accounting recommends that the entity use the smallest number of individual funds possible, consistent with its particular circumstances. Garfield County has 29 funds, which are broken out into three classifications: Governmental, Proprietary and Fiduciary Funds.

The general ledger is organized on the basis of these funds and the fund's classification, and maintained in conformance with GAAP. Each fund is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that consist of assets, liabilities, fund equity, revenues and expenditures. The fund structure in the audited financial statements is different from the budgetary fund structure since the County does not budget for Agency Funds or Asset and Liability Funds. Therefore, these funds are not included in the budget document. For the purposes of the budget there are 19 funds.

In accordance with GAAP, the County's General Fund is considered a major fund. Other major funds include the Road and Bridge Fund, Human Services Fund and Capital Expenditures Fund. If a fund is not considered to be a major fund it is categorized as a non-major fund. Funds must be reported as major funds if they meet both of the following criteria:

- An individual governmental fund reports at least ten percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.
- An individual governmental fund reports at least five percent of the aggregated total for both governmental funds and enterprise funds of any one of the items for which it met the ten percent criterion.

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The County's enterprise fund, Solid Waste Disposal Fund, is

used to report the activity for which a fee is charged to external users for goods and services. The County's internal service fund, Motor Pool Fund, is used to report the activity that provides good and services to other funds and departments (functional units).

Agency funds are used to report resources held by the reporting government in a purely custodial capacity, which is why they are not included in the budget process. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. Garfield County funds are listed as follows:

## **GOVERNMENTAL FUNDS**

### ***General Fund***

- 100 – General Fund

### ***Special Revenue Funds***

- 119 – Public Health Fund
- 120 – Road and Bridge Fund
- 121 – Human Services Fund
- 123 – Community Events Fund
- 124 – Conservation Trust Fund
- 125 – Emergency Reserve Fund
- 126 – Airport Fund
- 127 – Clerk & Recorder EFTF Fund
- 128 – Traffic Impact Fund
- 129 – Livestock Auction Fund
- 130 – Commissary Fund
- 133 – Retirement Fund
- 135 – Oil and Gas Mitigation Fund
- 136 – Garfield County Grant Fund
- 150 – Capital Expenditures Fund
- 187 – Traveler's Highland PID Fund

## **PROPRIETARY FUNDS**

### ***Enterprise Fund***

- 200 – Solid Waste Disposal Fund

### ***Internal Services Fund***

- 210 – Motor Pool Fund

## **Basis of Accounting and Budgeting**

The basis for accounting for governmental funds is modified accrual. The basis for accounting for proprietary funds is full accrual with the exceptions of depreciation and amortization. Revenues are recognized in the accounting period in which they become "available and measurable."

The basis for budgeting is full accrual. All operating and capital expenditures and revenue are identified in the budgeting process because of the need for appropriation authority.

## Balanced Budget Definition

According to C.R.S. 29-1-103 no budget adopted shall provide for expenditures in excess of available revenues and beginning fund balances.

## Amending the Budget

Per Colorado State Statute C.R.S. 29-1-110 expenditures must not exceed appropriations approved by the Commissioners. The appropriations are established by classification and function. If any increase to the adopted budget is needed, a supplemental budget and appropriation must be approved by the Board of County Commissioners at a public hearing, with prior published notice of the proposed change (C.R.S. 29-1-109). Elected officials and department heads may reallocate budgets within an appropriation without the approval of the Board of County Commissioners.

A budget amendment will increase or decrease budget appropriations adopted by the Board of County Commissioners. Budget appropriations may be adjusted due to the following:

- Appropriation Transfers – the transfer of appropriated budget from one or more spending agencies in a fund to one or more spending agencies in another fund or between spending agencies within a fund (C.R.S. 29-1-109).
  - Used when a unit is identified as having insufficient budget dollars while at the same time another appropriation unit is identified as having an excess budget.
- Supplemental Appropriations – if, during the fiscal year, unanticipated revenues that were not assured at the time of the adoption of the budget from any source other than the local government property tax mill levy are received or if the beginning fund balance is in excess of the budgeted fund balance, the result is additional available revenues (C.R.S. 29-1-109, C.R.S. 29-1-110).
  - Used when a policy, law, statute, or court ruling becomes effective which mandates expenditures that were not anticipated or budgeted.
  - Used when an expenditure item is essential to the operation of a County office or department that was neither anticipated nor budgeted.
  - Used when revenue is received and designated for a particular purpose that was neither anticipated nor budgeted.
- Budgetary Decreases – if revenues or expenditures are lower than anticipated in the adopted budget (C.R.S. 29-1-109).
  - Used when the projected revenue shortfall is large enough that it would cause a shortfall for a fund or for a program dependent upon it.
  - Used if a non-recurring expenditure budgeted for the current year has been cancelled or deferred to a subsequent fiscal year and must be re-budgeted (e.g. a project was not completed this year and must be completed the next year).

According to Colorado State Statute (C.R.S. 30-25-202), moneys credited to the Capital Fund shall not revert or be transferred to any other fund. Likewise, no transfers are allowed from the General Fund into the Road & Bridge Fund per State Law (C.R.S. 30-25-106), and no transfers are allowed from the Road & Bridge Fund into the Capital Fund (C.R.S. 30-25-202 (1)).

## Monitoring the Budget

Performance against budget is monitored on a regular basis. Each month the Finance department provides financial reports to the BOCC including review of each fund and department's performance against budget

and in-depth analysis of any significant variances. Finance works closely with department personnel to fully track actuals against budget throughout the year.

**Other Budgetary/Financial Policies**

Garfield County adheres to the following policies for the purposes of financial planning and budget preparation:

- **Fund Balances**

Fund balance is defined as the difference between assets and liabilities. Uncommitted or unrestricted fund balance exists only in the General Fund. A number of Garfield County fund balances and the spending from the funds are restricted or committed in their use as follows:

<b>Fund</b>	<b>Restriction</b>
<b>Public Health</b>	Legislative
<b>Road and Bridge</b>	Legislative
<b>Human Services</b>	Legislative
<b>Conservation Trust</b>	Legislative
<b>Emergency Reserve</b>	Legislative
<b>Garfield County Grants</b>	BOCC Resolution
<b>Capital Expenditures</b>	Legislative
<b>Airport</b>	BOCC Resolution
<b>Community Events</b>	BOCC Resolution
<b>Clerk and Recorder EFTF</b>	BOCC Resolution
<b>Traffic Impact</b>	BOCC Resolution
<b>Livestock Auction</b>	BOCC Resolution
<b>Commissary</b>	BOCC Resolution
<b>Retirement</b>	BOCC Resolution
<b>Oil and Gas Mitigation</b>	BOCC Resolution
<b>Travelers Highland PID</b>	BOCC Resolution

Each fund should maintain a fund balance at a level that will provide for a positive cash balance throughout the fiscal year, which will reduce the likelihood of having to enter into short-term debt to pay for current operating expenditures or so major unplanned occurrences will not jeopardize the financial position of the County.

In order to meet emergency obligations, avoid interruptions in cash flow, generate interest income, and maintain a sound bond rating, the County shall maintain an unassigned fund balance in its General Fund plus Oil & Gas Mitigation Fund of one third of the County’s total General Fund expenditures. GFOA recommended practice is at a minimum no less than five to fifteen percent of regular General Fund operating revenues, or no less than one to two months of regular General Fund operating expenditures. Due to the volatile economy driven by the Oil & Gas Industry, Garfield County requires an unassigned fund balance in the General Fund in excess of these recommended minimums.

Fund balance may be used as appropriate (and approved by the Board of County Commissioners) under sound management practices when current revenues are not adequate to cover current expenditures.

Garfield County will maintain an emergency reserve in an amount equal to at least three percent of fiscal year spending in accordance with the provisions of Article X, Section 20 of the State Constitution (TABOR Amendment).

- **Revenues**

The County strives to maintain a diversified and stable revenue base; to the extent it has the legal authority to do so and will pursue revenue-raising strategies which will help to reduce dependence on property and sales tax revenues. All revenue projections are realistically calculated and budgeted. Funding through grants is encouraged as a means of financing a project or one-time expenditures. The County, however, discourages the use of intergovernmental grant assistance for routine, ongoing operational costs.

- **Fees and User Charges**

The County will set its fees and user charges to recover, at a minimum, the variable costs of services in order to reduce reliance on property and other taxes. The County charges fees and user charges when it is allowable, when a limited and specific group of beneficiaries can be identified or when it is feasible to charge beneficiaries for services rendered. To the extent possible, fee levels are set to recover the full costs of the services provided, unless it is deemed necessary or desirable to subsidize the service. As part of the budget process, the County shall annually review the fees and user charges. All changes to the schedule of fees and charges must be approved by the Board of County Commissioners.

The capital and operating budgets of enterprise funds (i.e., Solid Waste Disposal Fund), shall not be subsidized by the General Fund and shall be supported wholly by fees and charges generated by the enterprise.

- **Operating Expenditures**

The County will pay all current expenditures with current revenue. The County will maintain a budgetary control system to ensure adherence to the budget and will make timely reports available to management, which compare actual revenues and expenditures to budgeted amounts. The County will encourage the use of technology and capital investment programs that are cost effective and will manage the growth of operating costs.

Staffing shall not exceed the authorized level. An increase in headcount must be authorized by the BOCC either through the budgetary process or by separate consideration and approval during the year. All wage line items are budgeted and utilized by each department and office subject to the following terms and conditions:

- a. No transfer shall be allowed to the extent such transfer would occur between wage line item and the operating line item of the individual departments or offices.
- b. All expenditures authorized by individual department heads or elected officials shall be accomplished in a manner consistent with Section III of the Personnel Policies and Procedures Manual, as set forth in resolution 2010-77; the Pay Administration Philosophy Strategy and Guidelines ; and the compensation plan approved by the BOCC and individual elected officials for the year 2018.
- c. All expenditures from individual department and office wage line items shall occur only if such expenditures are consistent with Section III of the Personnel Policies and as reflected in the Pay Structure and the Pay Administration Philosophy, Strategy and Guidelines.

- **Capital Improvements**

The County will plan for its capital needs into the future in order to address needs and to earmark revenues. Elected official offices and departments shall request items meeting the definition of capital assets through the annual strategic planning process. The County will strive to fund capital improvements on a pay-as-you-go basis in order to enhance its financial condition and bond rating.

An asset is classified as a capital asset if it is used in operations, the cost is greater than \$5,000, has a useful life greater than one year, is new construction or an addition, or is an asset repair that will effectively change the capacity or life of that asset by more than 25 percent. This includes both tangible (land, buildings, vehicles, machinery) and intangible assets (software, water rights, easements). Capital asset classification applies to individual items in a group of items, rather than to the group as a whole, unless the effect of doing so would be to eliminate a significant portion of total capital assets. These assets are tracked using the County's finance and accounting software program.

- **Debt**

The registered, qualified voters of the County must approve issuance of debt. Debt will not be used to finance current operating expenses. Debt should only be used for the construction of capital facilities or the purchase of capital assets. In general, the assets should not be recurring capital replacements, such as vehicles. When debt is approved by the voters, the County will make every effort to obtain the best possible rating and to maintain a favorable rating through prudent financial management.

The County will confine long-term borrowing to major capital purchases or projects that cannot be financed from current revenues. The County should exhaust all possible resources, such as grants and pay-as-you-go funding, before borrowing funds. The Board of County Commissioners is authorized to execute lease agreements on behalf of the County.

- **Cash and Investments**

The BOCC authorizes the Garfield County Treasurer to invest any or all of the funds coming into the possession of the Garfield County Treasurer's Office in a manner which complies with applicable state law and the Garfield County investment policy. The Garfield County investment policy establishes the delegation of authority for investment, the conflict of interest policy for investment, and designated specific eligible investments, transactions and institutions for investment. These policies are identified and adopted through the use of various resolutions including that which adopts the budget.

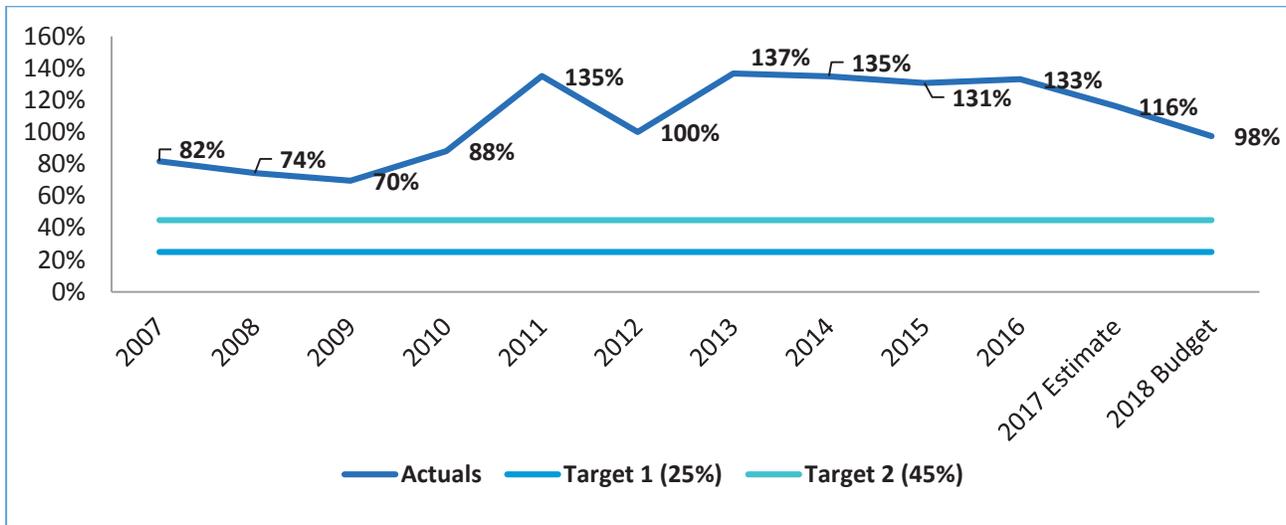


## Financial Performance Measures

As part of its long-term financial planning policies the budget is prepared and analyzed using several financial performance measures.

### Fund Balance to Total Expenditures Ratio

This ratio measures the County's ability to meet annual expenditures with end-of-year (EOY) fund balance. A preferred trend of 25 percent to 45 percent will help insulate the County from unforeseen economic downturns and provide funds for large scale purchases without the need for borrowing. The formula used is EOY Fund Balance/Total Expenditures (net of interfund transfers). As can be seen by the chart below, the County experiences great volatility in this ratio but stays well above the targets.



### Fund Balance to General Fund Expenditures Ratio

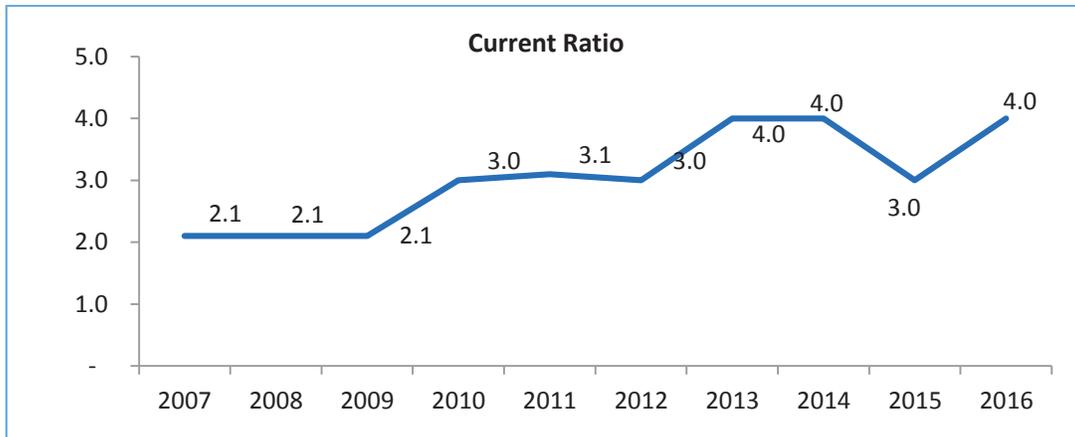
As outlined in the Long-term Financial Planning section of this document, the County maintains an unassigned fund balance in its General Fund plus its Oil and Gas Mitigation Fund of at least one third of the County's total general fund expenditures. At the end of 2016 the unassigned fund balance in the General Fund was \$41,937,097 and at the end of 2017 projected at \$33,206,917. At the end of 2017 the projected general fund balance will be 62 percent of the General Fund expenditures. The fund balance in the Oil and Gas Mitigation Fund is projected to be \$13,187,852. These two funds are 87% of the County's total general fund projected expenditures for 2018.

### Fund Balance to General Fund Revenues Ratio

The County's financial policy guidelines also require it to maintain an unassigned fund balance in the general fund in excess of between 5 and 15 percent of total General Fund revenues. At the beginning of 2018 the County's unassigned fund balance in the General Fund is projected at approximately 73 percent of regular general fund operating revenues. The General Fund has more than sufficient working capital to meet the 2018 goals and objectives and provide a stable and quality level of service.

## Current Ratio

The current ratio measures the County's ability to pay back its short-term liabilities (debts and payables) with its short term assets (cash and receivables). Although the target for this ratio is commonly 2:1, in an environment where industries are cyclical as is the case in Garfield County, the goal is to maintain a higher current ratio. Garfield County's current ratio at the end of 2016 was 4:1 indicating a strong position. The projected ratio for 2017 and 2018 will remain above 2.0.



## Long Term Financial Planning

As mentioned previously, the financial health of Garfield County is significantly dependent upon oil and gas activity. Nearly 33 percent of the County's total revenue is related to property tax, and 50 percent of property tax revenue is associated with the oil and gas industry. Historically, approximately 50 percent of total revenue was related to property tax, and almost two thirds of property tax revenue was associated with the oil and gas industry. Because of this, Garfield County has built up a healthy fund balance to assure stable levels of service to Garfield County citizens, stable employment and benefits for its employees, and a strong assurance it will not need to ask the tax payers for tax increases to pay for the growing needs of the County during the expected downturn in our local economy.

In order to meet emergency obligations, avoid interruptions in cash flow, generate interest income, and maintain a sound bond rating, the County has determined it will maintain an unassigned fund balance in its General Fund plus its Oil and Gas Mitigation Fund of one third of the County's total General Fund expenditures. Due to the volatile economy driven by the oil and gas industry, Garfield County also strives to maintain an unassigned fund balance in the general fund in excess of between 5 and 15 percent of total General Fund revenues.

The forecast beyond 2018 anticipates property tax revenues to remain flat. While natural gas prices have increased the production levels in Garfield County have not. This reduction in property tax revenues will likely take place from 2018 through 2019 with a projected modest climb up in 2020 and beyond. The 2018 budget was developed with this in mind by balancing operating costs. Projects and programs were revisited, re-evaluated and prioritized during the annual strategic planning process and in preparation for the budget. The County emphasizes continuous improvement of work processes to ensure that the County is providing the best service possible at the lowest possible cost.