

DEPARTMENT OF STATE TREASURER POLICIES MANUAL  
 BUDGETING  
 SECTION 10

<b><u>Synopsis</u></b> .....	1
<b><u>Introduction</u></b> .....	5
<b><u>Budget Ordinance</u></b> .....	5
<b><u>Budget Officer</u></b> .....	6
<b><u>Budget Calendar</u></b> .....	6
<b><u>Budget Preparation</u></b> .....	7
<b><u>Estimating Revenues</u></b> .....	8
<b><u>Budgeting for Motor Vehicle Tax Revenues</u></b> .....	10
<u>Staggered System</u> .....	10
<u>Calendar Year (or Annual) System</u> .....	12
<b><u>Budgeting for Property Taxes on Discovered Property and Revenue Revisions</u></b> .....	14
<u>Estimating Appropriations</u> .....	14
<u>Capital Improvements Program</u> .....	18
<b><u>Estimating Fund Balance Available for Appropriation at July 1</u></b> .....	19
<b><u>Budgeting Amounts for Contingencies</u></b> .....	20
<b><u>Submission of Budget to the Board</u></b> .....	21
<b><u>Board Review and Adoption of the Budget Ordinance</u></b> .....	21
<b><u>Appropriations Required in County Budgets</u></b> .....	22
<u>County and City School Systems</u> .....	22
<u>Social Services</u> .....	24
<u>Public Health</u> .....	24
<b><u>Capital Project and Grant Project Ordinances</u></b> .....	24
<b><u>Internal Service and Trust and Agency Funds</u></b> .....	26
<b><u>Budgeting for Vending Facility Operations</u></b> .....	27
<b><u>Budget Administration</u></b> .....	27
<b><u>Budget Amendments</u></b> .....	29
<b><u>Transfers Between Funds</u></b> .....	31
<b><u>Interfund Loans</u></b> .....	31
<b><u>Interim Budgets</u></b> .....	31
<b><u>Alternative Approaches to Budgeting</u></b> .....	33
<u>Performance Budgeting</u> .....	34
<u>Zero-Based Budgeting</u> .....	35
<b><u>Budgeting Emergency Management Funds</u></b> .....	36
<b><u>Suggested Reading and Resources</u></b> .....	37
<b>APPENDIX A - SAMPLE BUDGET ORDINANCE (County)</b> .....	39
<b>APPENDIX B – SAMPLE COUNTY BUDGET WORKSHEET</b> .....	44
<b>APPENDIX C – SAMPLE BUDGET ORDINANCE (Municipality)</b> .....	53
<b>APPENDIX D - SAMPLE CAPITAL PROJECT ORDINANCE</b> .....	57
<b>APPENDIX E - SAMPLE BUDGET ORDINANCE AMENDMENT</b> .....	58
<b>APPENDIX F -- SAMPLE CAPITAL RESERVE RESOLUTION</b> .....	59
<b>APPENDIX G - SAMPLE FINANCIAL PLAN</b> .....	60
<b>APPENDIX H - ESTIMATION OF FUND BALANCE AVAILABLE FOR APPROPRIATION</b> .....	61
<b>APPENDIX I - SAMPLE INTERIM BUDGET ORDINANCE</b> .....	65
<b>APPENDIX J - SAMPLE CAPITAL IMPROVEMENT PROGRAM PAPERWORK</b> ..	69

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**Synopsis**

- 1) All local governments must operate under a balanced, annual budget.
- 2) The budget ordinance is the legal document that is adopted by the governing board. The ordinance is the legal means by which taxes are levied, revenues estimated, and appropriations made. Normally, a budget ordinance is in effect from July 1 to June 30. To levy taxes, the board must, in the budget ordinance, specify the tax rate. The board should include the dollar amount of property being levied upon, and the estimated tax collection percentage in the budget ordinance.
- 3) The budget ordinance must be adopted on or before July 1 of the fiscal year it is to cover. It is wise for units to begin their budgeting process at least several months prior to July 1 in order to allow enough time to develop an accurate, workable budget. G.S. 159 establishes a timetable for this.
- 4) Revenues can be broken into several major groups – 1) local taxes, 2) intergovernmental revenue, 3) other revenue that supports general fund services, 4) user fees and other service based fees. Units normally have little or no control over the amount of intergovernmental revenues they will receive. Units do have control over taxes, user fees, and other charges.
- 5) Intergovernmental revenues can be estimated accurately with the assistance of various statewide government associations.
- 6) Estimation of taxes, user fees, and other charges should begin with an estimation of the budget year's revenue assuming no rate changes are made. Units can then determine if rate changes will be needed to meet expected appropriations or if new sources of revenue need to be developed.
- 7) All revenue estimates must be thoroughly documented. All estimates should be made conservatively to avoid overexpending of available resources.
- 8) Certain appropriations are required to be made by units of government in North Carolina. All debt service payments due in the budget year must be appropriated. Any deficit in a particular fund must be appropriated. Appropriations must be made for any payments due on continuing contracts in the upcoming year. All counties must make annual appropriations to the Revaluation Fund and to the local school system.
- 9) Since budgets are prepared on the modified accrual basis of accounting, certain items do not have to be appropriated, such as depreciation and amortization. Proceeds of capital leases and subsequent purchases of assets do not have to be budgeted (the unit may budget these items if it so chooses), but the annual payment due on such leases does need to be budgeted.

- 10) Various restrictions are placed on some appropriations as well. Bond proceeds must be appropriated for the project for which the bonds were sold or for debt service on the bonds. Certain restrictions exist on voted property taxes and appropriations for purposes that require voter approval.
- 11) Appropriations for continuation expenditures are those that must be made to continue the current level and quality of service by each department of the unit. Appropriations for expansion expenditures are those that are made for new programs or increased levels or qualities of service in existing programs. Appropriations also are made for capital improvements. A properly implemented and updated Capital Improvements Plan can serve as a basis for capital budgeting for a unit.
- 12) A source of funds available to some units is fund balance. The law specifies the amount of fund balance that is available for appropriation. It is the recommendation of the staff of the Local Government Commission (the LGC) that all tax-levying units maintain at an absolute minimum a fund balance available equal to 8% of total General Fund expenditures as a cash flow reserve.
- 13) Units may budget for contingencies, but the amount budgeted must not exceed 5% of the total of all other appropriations in that fund. No expenditures can be made directly out of the contingency appropriation. Instead, funds from the contingency appropriation must be moved to the applicable function or department appropriation before an expenditure is made.
- 14) The budget officer is the official responsible for seeing that the budget is completed and presented to the board on a timely basis. After receiving department budget requests, the budget officer must ensure that all appropriations in the continuation budget are still valid. The budget officer must then be sure that all requests for new funds are well documented and justified. All requests for new capital spending also must be reviewed for documentation and plausibility. It is also the budget officer's responsibility to determine the amount of salary increases and adjustments that will be recommended to the board. Often this is determined prior to the beginning of the budget process.
- 15) After the budget officer completes the review of the departmental budget requests and makes any necessary changes, the budget is ready to be submitted to the board. Along with the budget, the budget officer must submit a budget message to the governing board.
- 16) Once the budget is submitted to the board, it must be made available to the public for review. Prior to the adoption of the budget by the board, a public hearing must be held. The law requires that ten days must pass between the time the budget is submitted to the board and the time it is adopted. During this time, the board should meet and review the budget to determine what changes it will make, if any.

- 17) Counties are required to make certain appropriations in addition to the appropriations required of all units. Counties must appropriate funds for both the school Local Current Expense Fund and the school Capital Outlay Fund. There are legal requirements regarding the amount that must be appropriated. Amounts also must be appropriated for social services and public health.
- 18) In addition to the annual budget, units may adopt capital project and grant project ordinances. These ordinances are best suited for large, complex projects that will take more than one year to complete or for projects that are not a normal part of a unit's operation. Units may also, by resolution of the board, set up capital reserve funds to set aside funds for projects.
- 19) Internal Service Funds and Trust and Agency Funds are not required to operate under an annual budget. Units must, however, develop an annual financial plan for internal service funds, if they are not in the annual budget ordinance. The governing board must approve financial plans for these funds.
- 20) Moneys received from vending facility operations must be budgeted and expended in accordance with G.S. 159. Employee pools that are not available to the public or operated for profit, such as employee coffee funds, are not subject to G.S. 159.
- 21) Budgets can be administered in a variety of ways. Units should analyze the types of expenditures they make and determine the best method of administration for these expenditures. The primary control tool is the preaudit certificate.
- 22) Budget amendments to change the budget ordinance must be approved by the board. The board has the option of authorizing the budget officer to make changes to the budget without obtaining prior board approval. Such changes must be within a fund. Amendments must be made at the level at which the original ordinance was adopted before expenditures exceed appropriations or if actual revenues are different from the estimated amounts.
- 23) Transfers from one fund to another must be budgeted and should be clearly identified as transfers.
- 24) Loans between funds should be approved according to the budget ordinance. Loans that extend longer than one fiscal year must be budgeted.
- 25) Units may adopt interim budgets if necessary. The law specifies that salaries, debt service payments, and the usual and customary expenditures of the unit for the time frame that the interim budget will cover, may be budgeted in an interim budget. Taxes, however, may not be levied under an interim budget. Units that use interim budgets should adopt annual budgets as soon as possible to facilitate the collection of taxes, as taxes cannot be collected until they are levied. The annual budget ordinance, once adopted, should incorporate all items budgeted in the interim budget.

- 26) Some local governments in the State use alternative budget techniques, such as performance budgeting and zero-based budgeting. Performance budgeting sets objectives for the services provided by each program or department. Managers are expected to meet those objectives within the funding limits of the budget. Performance objectives and indicators are formulated and approved during budget preparation. The program or department's performance is judged on how well the objectives are met. Zero-based budgeting requires justification every year of each program or service funded by the unit. In zero-base budgeting theory, the starting point is zero. In practice, however, many units choose a percentage of current spending, for example, 50 percent, to use as a base and all funding above that level must be justified.
- 27) Local units are occasionally eligible to receive federal and State disaster relief funds. Strict time limitations and documentation requirements for these funds must be met. Also, these funds are subject to G.S. 159 and must be budgeted and expended accordingly.

## **Introduction**

Section 159-8 of the North Carolina General Statutes states that each local government and public authority shall operate under an annual balanced budget ordinance. Notwithstanding any other provision of law, no local government or public authority may expend any moneys, regardless of their source, except in accordance with a board approved budget ordinance or project ordinance, or through an internal service fund or trust and agency fund properly excluded from the budget ordinance, if not budgeted in the annual budget ordinance. Internal service funds must operate under a balanced financial plan that has been approved by the governing board. Trust and agency funds are not required to operate under a budget or financial plan.

The budget provides a basis for all fiscal policy decisions during the period covered. The budget officer is responsible for budget preparation and execution, while the finance officer is responsible for determining that all expenditures made are authorized by the budget.

## **Budget Ordinance**

The budget ordinance is the legal document adopted by the board to estimate revenues, establish appropriations, and levy taxes for a unit of government for the coming year. G.S. 159-13(b) provides specific directions and limitations that bind the governing board in adopting the budget. The ordinance must be organized by fund (see the attached sample budget ordinances). Within each fund, revenues should be organized by source while expenditures are organized by function, department, or program. Transfers, appropriated fund balance, and contingencies should be separated within each fund. In addition to the ordinance, most units also prepare a detailed budget document. Unless the detailed budget document is specifically identified and referred to in the budget ordinance, it is not part of the ordinance and is provided as a source of additional budget information.

The budget ordinance should be adopted as an official document. The ordinance may not be adopted by mere reference to it in the board meeting minutes [G.S. 159-13(d)]. Once the ordinance is adopted, a copy must be presented to the finance officer, the budget officer, and the unit's clerk within five days of the ordinance being adopted by the board.

The governing board must approve the ordinance no later than July 1 of the budget year [G.S. 159-13(a)]. (See the "Budget Calendar" section of this document.) If a budget ordinance is not adopted by July 1, an interim budget ordinance must be passed to cover usual and ordinary expenses of the unit plus any emergency expenses (G.S. 159-16). The statute speaks only of interim appropriations. It is not necessary to include revenues to balance the budget; although there obviously must be cash available to fund the appropriations. Taxes may not be levied in an interim budget. Therefore, it is to the unit's advantage to pass an annual budget in a timely manner. (See the "Interim Budgets" section of this document.)

The budget ordinance should cover the period from July 1 to June 30. Any other fiscal year must have the approval of the Local Government Commission [G.S. 159-8(b)].

To have a legally set ad valorem tax rate, the unit should include the tax rate, valuation, and the expected collection percentage of the tax in the ordinance. Also, the estimated tax collection percentage cannot exceed the actual collected percentage at June 30 of the current year, with modifications for motor vehicle taxes [G.S. 159-13(b)(6)].

### **Budget Officer**

G.S. 159-9 states that "each local government and public authority shall appoint a budget officer to serve at the will of the governing board." If a county or municipality has the manager form of government, then the manager of the unit is the budget officer. In counties not having the manager form of government, the finance officer or any other county officer or employee may fill the role except the sheriff or, if the county population exceeds 7,500, the register of deeds. Municipalities not having the manager form of government may impose the duties of the budget officer on any city officer or employee, including the mayor if he/she agrees to undertake them. Public authorities and special districts may impose the budget officer's duties on the chairperson or any member of the governing board, or any other officer or employee.

### **Budget Calendar**

Many local governments begin their annual budget preparation shortly after January 1 or even earlier. This will enable the governing board to have ample time to prepare and refine the budget.

<u>Deadline Date</u>	<u>Process</u>
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**\* Prior to April 30.**

A workplan for the budget process is developed. Information necessary to develop the budget should be made available to department heads and the budget officer. This data includes: actual revenues and expenditures for the preceding fiscal year; actual revenues and expenditures through February 28, or later if available, of the current year; the estimated revenues and expenditures for the entire current year; and the current year salaries and wages for each employee. *This process should be done as soon as possible. The staff of the LGC recommends this be done in February.*

**By April 30**

Requests from departments for budget year are due.

**By May 1**

Estimated revenues and appropriations are reviewed and adjusted. Decisions are made whether to request appropriated fund balance and/or reduce appropriations to balance the budget. The budget may not be in balance at this point.

**By May 15**

Estimated revenues, fund balance, and appropriations requests for the coming fiscal year should be reviewed and adjusted. The budget should be in balance at this point.

**\* By June 1**

The budget document, along with the budget message, is printed and presented to the board for its consideration. The public hearing on the budget should be scheduled at this time. A copy of the budget must be filed with the board's clerk at the time it is presented to the board. The clerk shall make a copy of the budget available to all news media in the county.

**\* By July 1**

The board should approve the budget ordinance. The public budget hearings should be held prior to the adoption of the budget ordinance. The board should make any necessary changes to the budget as presented. These hearings can not be held earlier than 10 days after the budget is presented to the board.

\* Denotes dates set by North Carolina General Statutes (G.S. 159-10 through 159-13).

**Budget Preparation**

Developing a workable, legal budget ordinance is a multi-step process that involves all levels of management within a unit. The process begins with the department managers preparing and submitting their revenue estimates and estimated appropriations to the budget officer at least by April 30 (or earlier if requested by the budget officer [G.S. 159-10]). Each request consists of an estimate of the financial requirements of each department for the coming year. The revenue estimate should be a reasonable estimate of revenues to be realized by the department's operations during the year. These estimates should be in the form prescribed by the budget officer.

While the department heads are developing these requests, the finance officer, unit manager, and budget officer should be developing some overall budget policies, such as the amount of salary increases to be given and the amount of funds available for new positions. Salary and wage decisions should be made prior to the department managers making their requests so that salary increases can be factored into each department budget request from the beginning of the process. The finance officer is also responsible for submitting the following statements to the budget officer (by April 30):

- a) A complete statement of the amount expended for each category of expenditure in the budget ordinance and the amount realized from each source of revenue during the preceding year;
- b) A complete statement of the estimated amount to be expended for each category of the budget ordinance and the amount estimated to be received from each source during the current year [G.S. 159-10].

Once the budget officer receives the departmental requests, he or she has several responsibilities in reviewing the requests prior to submitting them to the board. First, the budget officer has a responsibility to review the continuation appropriations to determine that all programs and services are still viable in their present form and quantity. Second, the budget officer should verify that all requests for increases in funding over the current year's budget are well documented and that each request specifies how the extra funds would be spent. Third, all requests for new positions should be evaluated. Additional permanent positions represent a long-term financial commitment for a unit and should be carefully considered. Fourth, any requests for new equipment should be evaluated carefully, especially those for additional equipment as opposed to replacement equipment. Often, new equipment requests are associated with new projects or services, or improvements to existing programs or services. Also, additional buildings and equipment will result in long-term increased operations and maintenance costs. These costs are less obvious than the outlays for the assets, but do represent recurring future appropriations. Any such requests should be reviewed in detail and well documented to justify spending the extra funds. Decisions should be made concerning renovation and repairs versus new equipment.

### **Estimating Revenues**

Revenues can be separated into two basic categories: 1) intergovernmental revenues, over which the unit usually has no control with regards to amount or time of receipt, and 2) unit-controlled revenues, such as ad valorem taxes, user charges, license and permit fees, and investment earnings. A simplified approach to budgeting both types of revenues would be as follows:

- a) Estimate the amount of intergovernmental revenues the unit can expect to receive in the upcoming year, based on legislative appropriations and other relevant sources of information. If possible, obtain an estimate of revenues from the source of the funds. The N. C. Department of Revenue can provide useful

information concerning revenues that are passed through the Department. [Requests to the Department of Revenue should be made to the Tax Research Division at (919) 733-4548.] Also, the [League of Municipalities](#), the [Association of County Commissioners](#), and your council of governments often provide revenue projections or statewide averages on the estimated intergovernmental revenues available on an annual basis to assist units in the preparation of their budgets. [*Caution: Statewide averages may not apply to a particular unit's situation.*]

- b) Estimate the revenue to be generated from taxes, enterprise charges, and user fees for the upcoming year as if no changes are to be made in the tax rate or user fees charged. When estimating ad valorem tax revenue, remember to base it on an estimated assessed value of property subject to tax. This estimated value could be obtained from the county tax assessor's or supervisor's office. Remember, the estimated tax collection percentage in the budget is limited by G.S. 159-13(b)(6), generally that the estimated collection rate for budget purposes cannot exceed the prior year's actual rate, with some adjustments allowed for motor vehicle property tax collections. Even though the year has not ended by the time the budget is prepared and adopted, the amount of property taxes collected to date should be very close to the amount that will be collected by year-end. Collections within 60 days after the fiscal year end can't be used to calculate the collection percentage since they are not "measurable" and "available" for the current fiscal year and will be recognized as deferred revenue. Units may amend their budgets for tax revenue from discovered property, using the estimated collection percentage adopted in the original budget ordinance. For example, if discovered property results in an additional levy of \$300,000 of taxes, and the unit originally budgeted to collect 95% of its tax revenue, then the unit may amend its budget for additional tax revenue of \$285,000 (95% of \$300,000). If the unit has fund balance available, this may be appropriated in place of appropriating additional property tax revenue.
- c) Consider other sources of funds, such as transfers and appropriated fund balance when applicable. Generally, each fund should be self-supporting. Also, adequate fund balances should always be maintained. The amount of fund balance available to be used to balance the budget is limited by State statute [G.S. 159-8(a)].
- d) The total estimated revenue for the year is the sum of items a) to c). Once the estimated appropriations have been determined (as described below), compare the estimated revenues to the estimated appropriations to determine what type of adjustments, if any, the unit will need to make.
- e) Units may use the annual budget process to review enterprise fund rates and user fees and charges. Based on the review, revisions and updates to the fees and charges may be made. Changes to rates, fees and charges may be made either in the annual budget ordinance or in separate board actions outside of the budget process.

If estimated revenues fall short of estimated appropriations, the unit may want to consider increasing the estimated revenues it can control - ad valorem taxes, enterprise charges (if applicable) and user fees - or reducing estimated appropriations to match the revenue estimates. Increasing controllable revenues can be realized in at least four different ways: 1) increase the amount of the prior years' ad valorem taxes to be collected and take steps to improve the collection of these taxes. *Caution: the increase should be realistic.* (See the "Tax Billing and Collection" section of this Policies Manual for guidance in this area); 2) increase the ad valorem tax rate; 3) increase rates or fees currently being charged to users for services; and 4) impose new fees to be charged to users for services currently being provided at no charge. Increasing tax collections may be the least controversial of the four methods to increase revenues, as the unit has a legal obligation to collect all of its taxes. When a unit considers raising its ad valorem tax rate, it should take into consideration the rates of other units of similar size offering similar services. The unit may discover that the rate it charges is significantly different from others of similar size. If this appears to be the case, a closer look at the unit's tax rate would certainly be warranted. The staff of the LGC annually publishes county and municipal tax rate and tax collection rate information in the two Management of Cash and Taxes memorandums. The units are sorted by similar populations for group average purposes. See the State Treasurer web site for more information, [www.treasurer.state.nc.us](http://www.treasurer.state.nc.us).

When considering fee or rate increases, the unit should be aware that an increase in user charges might not be accompanied by an equal increase in revenues. Service demand may flatten out or possibly decrease due to a rate increase. Units should consider the possible change in demand when determining how much of a rate increase to implement. If rate increases are implemented or new fees put into place, the changes should be specifically mentioned in the board meeting minutes or in the budget ordinance itself so that changes in the unit's fee structure can be plainly seen (see Section 55, "User Fees").

### **Budgeting for Motor Vehicle Tax Revenues**

With the passage of G.S. 105-330.5(b), effective January 1993, counties became responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special taxing districts in the county. North Carolina motor vehicle registration must be renewed annually under either the staggered system or the calendar year system.

#### **Staggered System**

For vehicles under the staggered system of registration, the Division of Motor Vehicles issues a new registration card and a renewal sticker. Any type of vehicle may be registered by this means. Billing for motor vehicles property taxes is dependent upon the vehicle registration with the Division of Motor Vehicles. Registration expiration dates of renewal stickers issued for a certain type of vehicle may vary so that an approximately equal number expires at the end of each month, quarter, or other period consisting of one or more months.

Property taxes are due the first day of the fourth month following the date the registration expires or on the first day of the fourth month following the month in which the new registration is applied for. In computing the taxes, the county assessor uses the tax rates of the various taxing units in effect on the first day of the month in which the current vehicle registration expired or the new registration was applied for. (In cases where the local government is operating under an interim budget, or otherwise has not adopted an annual budget, the prior year's tax rate would be used.)

The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes on vehicles that are registered from March of 20X2 through February of 20X3 apply to the 20X2-X3 fiscal year because the taxes fall due July 20X2 through June 20X3. Any taxes that apply to the subsequent fiscal year should not be shown as receivables at June 30. Taxes collected prior to the fiscal year to which they apply should be recorded as deferred revenue in that prior year. Therefore, taxes collected for vehicles registered between March 1 and the fiscal year-end (June 30) would be reflected as deferred revenues at June 30.

#### Calculating Estimated Tax Collection Percentage

With the passage of Session Law 1999-261, G.S. 159-13(b)(6) was modified to change the estimated tax collection percentage for budgeting taxes on registered motor vehicles. The law is effective for budgets adopted after July 1, 1999. For this calculation, the estimation is based on the levy in the nine-month period ending March 31 of the fiscal year preceding the budget year, and the collections realized in cash with respect to this levy is based on the twelve-month period ending June 30 of the fiscal year preceding the budget year. The following formula should be used to determine the estimated tax collection percentage:

$$\frac{\text{twelve-month collection amount}}{\text{nine-month levy amount}}$$

(The remainder of the page is intentionally blank.)

The following example illustrates how the collection rate for registered motor vehicles should now be calculated.

Assume the following facts for the 20X3-X4 budget preparation:

Levy for motor vehicles registered under the staggered system:

Levy for taxes falling due July 1, 20X2 through March 31, 20X3	\$545,000
Levy for taxes falling due July 1, 20X2 through June 30, 20X3	\$725,000

Collected on 20X3 motor vehicle property tax levy (12 months of collections):  
 (As of June 30, 20X3)

Collections on taxes coming due July 1, 20X2 through March 1, 20X3	\$502,490
Collections on taxes coming due July 1, 20X2 through June 1, 20X3	\$604,432

	Prior to Amendment	After Amendment
Collections	<u>\$604,432</u>	<u>\$502,490</u>
Total Levy	\$725,000	\$545,000
Estimated collection percentage for budgeting in the 20X3-X4 FY	83.37%	90.20%

**For budgetary purposes only**, the estimated collection rate on motor vehicles registered under the staggered system in the FY 20X3-X4 budget may not exceed 90.20%. That collection percentage can then be applied to an estimate of the levy based upon the estimated assessed motor vehicle tax values multiplied by the appropriate tax rate. This figure would then be included in the budget. If the budget officer finds that the estimated assessed tax values on motor vehicles is too high, the budget should be amended.

Calendar Year (or Annual) System

For vehicles registered under the calendar year system, the Division of Motor Vehicles issues a new license plate and a new registration card when the registration is renewed. Vehicles registered under this system include commercial vehicles with a weight of 5,000 pounds or more, farm trucks, special mobile equipment, and other vehicles as defined in G.S. 20-87 and G.S. 20-88. For a vehicle newly registered under the calendar year system, taxes shall be due on the first day of the fourth month following the date the new registration is applied for. For a vehicle whose registration is renewed under the calendar year system, taxes shall be due on May 1 following the date the registration expired. These taxes are considered revenues for the next fiscal year since the intent is for these revenues to finance the subsequent fiscal year. At year-end, uncollected taxes are recorded as a receivable on the financial statements and are offset by deferred revenues. The taxes for vehicles registered under the calendar year system that have already been

collected as of year-end would also be reflected as deferred revenues because they are intended to finance the unit's operations during the next fiscal year.

### Calculating Estimated Tax Collection Percentage

Assume the following facts:

Taxes on annually registered vehicles due May 1, 20X2 (Recognized as revenue in the 20X2-X3 fiscal year. See Memorandum 872A.)	\$78,459
Taxes collected by June 30, 20X3	\$74,906
Estimated collection percentage for July 1, 20X3 to June 30, 20X4 budgeting purposes	95.47%

For these calculations to be accomplished effectively and efficiently, the budget officer and the tax collection office must have a good working relationship. The budget officer will need to know what has been levied against motor vehicles registered under the staggered system for the nine-months ended March 31, as well as what is subsequently collected on those taxes. Because state law requires a budget to be adopted no later than July 1, it is impractical to wait until June 30 to determine the exact collection percentage for budgetary purposes. The budget officer should determine the percentage of taxes currently collected for budget purposes prior to presenting the budget to the governing board. It will be after June 30 before the final percentage can be determined. Units may amend the budget at that time if the percentage used was lower than the final percentage. Units may view the use of a lower percentage to be conservative budgeting and leave the budget as is. Counties must supply municipalities with information about the levy and collections on a timely basis so that budgets can be prepared in accordance with General Statutes. No amendments may be made that changes the actual tax rate or a taxpayer's liability, except when required to do so by another authority [G.S. 159-15].

For vehicles registered under the staggered system, the assessed valuation for most vehicles will not be available when the initial budget is prepared. Budgeted revenues can be prepared by using the value of those vehicles that have actually been assessed to date. For budgeting purposes you cannot use estimated assessments for vehicles that have not yet been assessed. However, as vehicles are registered throughout the year, the assessment will increase and the unit may choose to amend its budgeted property tax revenues accordingly. Applying the collection rate for the fiscal year immediately preceding the budget year to the increase in the levy can do this. A unit that chooses to adjust its budget periodically may increase budgeted expenditures or decrease another budgeted source, such as fund balance appropriated.

For calendar year registered vehicles, vehicle assessed valuations will be available for estimating motor vehicle tax revenues in the budget year since the taxes for the budget year were due the preceding May 1st. For estimating annually registered motor vehicle

tax revenues in the budget ordinance, a unit of local government should use the assessed value of all annually registered vehicles for which taxes were due on the May 1st immediately preceding the budget year. The tax rate in effect on the preceding May 1st should be used as well.

Whether motor vehicles are registered under the annual system or the staggered system, units of local government should comply with G.S. 159-13(b)(6) for budgetary purposes. Local governments should also include as a budgeted revenue source the penalties and interest on motor vehicle taxes that are expected to be collected during the budget year.

### **Budgeting for Property Taxes on Discovered Property and Revenue Revisions**

Local governments are entitled to all taxes owed to them on taxable property located within each unit. Property taxes on discovered property may not represent a major revenue source for units, but they do constitute a legitimate source of funds. Taxes on discovered property are considered to be part of the current levy and should be included with the current year's tax revenue. The unit's budget can be amended to include, at a maximum, the same percentage of the discovered tax revenue as is budgeted for the original tax levy. Therefore, if the unit budgeted to collect 95% of its original levy, then it also can budget to collect 95% of its discovered tax levy. However, if the unit does not reasonably expect to collect that much of the discovered revenue, the percentage budgeted should be reduced to the level that the unit expects to collect.

All increases in estimated revenues should be thoroughly documented. For example, if the unit is budgeting a 10% increase in recreation fee revenues without increasing the fee itself, documentation must be provided to support this estimate. The unit might include the following statement in its budget workpapers: "Recreation revenues have increased approximately 10% each year for the last three years with no increase in rates charged. We expect this growth to continue in the upcoming year."

In summary, revenues should be budgeted conservatively. By doing so, the unit may reduce the chances that revenues will fall short of expectations. It is much easier to increase budgeted revenues and appropriations later in the fiscal year than to have available revenues fall short of expectations, thus requiring a reduction in appropriations after the budget year begins. If revenues fall short of expectations, the budget should be amended immediately.

### **Estimating Appropriations**

According to G.S. 159-28, "no obligation may be incurred in a program, function, or activity accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year." While it is the finance officer's responsibility to see that obligations are paid within the spending limits set by the budget

ordinance, it is the budget officer's responsibility to see that a workable budget ordinance is presented to the board for adoption.

The budget officer must consider various factors when preparing the budget. While stewardship responsibilities require that costs be kept to a minimum, the budget officer must prepare a proposed budget that allocates the resources required to provide the desired level of service. The budget officer must ensure that all funds are being appropriated and subsequently expended for public purposes.

Required Appropriations:

The Local Government Budget and Fiscal Control Act requires that certain appropriations be made in a unit's budget.

- 1) All debt service payments required to be made during the year must be appropriated [G.S. 159-13(b)(1)]. *[Note: This also includes installment purchase contracts (e.g., G.S. 160A-20 agreements) that do not have nonappropriation clauses.]*
- 2) Amounts must be appropriated to eliminate any deficits in any funds [G.S. 159-13(b)(2)].
- 3) Appropriations must be made for any payments that are due in the coming year on continuing contracts [G.S. 159-13(b)(15)].
- 4) For a county, an annual appropriation must be made to the reappraisal fund [G.S. 153A-150].

If a unit is operating under a refinancing plan put into effect pursuant to G.S. 159-176 (which applies to units in default on general obligation or revenue bonds, or tax, revenue, or bond anticipation notes), the Local Government Commission has the authority to require that the unit's budget be approved by the LGC prior to the unit's adoption of the budget ordinance (G.S. 159-177). If the LGC requests that any changes be made in the proposed budget, it is the board's duty to make the requested modifications prior to the board's adoption of the budget ordinance.

Items Not Requiring Appropriation:

Because the budget is prepared on the modified accrual basis of accounting, certain items that appear on the financial statements do not require appropriation.

- 1) No appropriation should be made for depreciation of capital assets. Neither should amortization of contributed capital in the enterprise funds be budgeted. *(Note that amortization of contributed capital will be non-applicable after implementing GASB Statement No. 34.)*
- 2) The LGC staff discourages the appropriation of fund balance in a proprietary fund for operating purposes since, by definition, operating revenues should cover operating expenses in a proprietary fund. Retained earnings are earnings from prior periods that may have been used to purchase fixed assets or to pay debt service. That amount is not legally available for appropriation.

- 3) Proceeds from capital leases and the resulting expenditures for the purchases of the assets are not required to be budgeted because the moneys do not flow through the unit. Under a true installment purchase contract, the unit would receive the proceeds from the lender and then would pay a vendor either directly (a completed asset) or through an escrow account (construction). Under these installment purchase contracts, receipts and expenditures should be budgeted. Under both capital leases and installment purchase contracts, the amount of the payment(s) due on the lease/purchase in the budget year must be budgeted. The purchase of the assets and the chosen financing method should, of course, be approved by the board and should be recorded in its meeting minutes. Units may budget for the purchase and subsequent expenditure of lease proceeds if so desired. Budgeting for the debt issuance proceeds and the associated capital outlay may be more informative to the financial statement users. Including debt proceeds in the budget may clarify the extent of a unit's debt supported capital outlays and how much capital outlays are funded by the unit's financial reserves.

Restrictions on Appropriations:

Restricted revenues must be appropriated for the purpose for which they were originally restricted.

- 1) Bond proceeds can only be appropriated for the following:
  - a) The purpose for which the bonds were issued;
  - b) Debt service on the bonds. [*Note: there are certain federal arbitrage restrictions on the use of bond proceeds for debt service payments. Local officials should consult with their bond attorney regarding arbitrage issues relevant to their unit of local government.*];
  - c) A reserve to be used later for the approved purpose [G.S. 159-13(b)(13)].
- 2) Appropriations for purposes that require voter approval for expending property taxes [per Article V, Section 2 (5) of the North Carolina Constitution] must not exceed the sum of the taxes levied for that purpose as determined by voter approval plus all unrestricted non-property tax revenues [G.S. 159-13(b)(5)].
- 3) All proceeds from a voted property tax for a specific purpose must be appropriated for that purpose [G.S. 159-13(b)(10)].
- 4) Any funds collected by a county for a special district are district funds, and may not be appropriated to any other fund from the agency fund or the special revenue fund for the district [G.S. 159-14].
- 5) Appropriations for operating transfers out of an enterprise fund may not be made unless other appropriations in the fund are sufficient to meet all operating expenses, capital outlay, and debt service payments for the enterprise [G.S. 159-13(b)(14)].

- 6) All members of the two municipal power agencies in the State have adopted limitations on transfers from the Electric Fund to the General Fund. The budget officers for those municipalities should review the proposed transfers from the Electric Fund to verify that the budgeted transfers are in compliance with the local policy. Transfers from the Electric Fund should be reviewed periodically during the year to ensure that the transfers to the General Fund do not exceed the local limits. The budget officer should closely review any other transfers not covered by the local policy, for the expected long-term economic benefit to the unit. Individual circumstances will vary in these situations. The budget officer and governing body should be very careful when deciding to include in the budget ordinance transfers not covered by the local policy.

Appropriations for continuation expenditures:

Continuation expenditures are those that must be made to continue to provide the current level and quality of service being offered by each department of the unit. These include expenditures for salaries, benefits, supplies, and replacement of existing equipment. These also include some increases over the prior year due to inflation.

Salaries typically make up the largest percentage of the continuation budget, with benefits usually being the second largest portion. Each unit should begin the budget process for salaries by determining the cost of funding all authorized positions, regardless of vacancies. An estimated amount should be added for the amount to be expended on overtime, longevity pay, and other salary supplements as applicable. This may be decreased by an estimate of the portion of the authorized salaries that will not be spent due to vacancies; however, it is more conservative to budget salaries at full amounts and then use salary reversions, if any, later in the fiscal year for other purposes if the local unit so desires. Salary reversions should not be used for recurring purposes. Benefits to be appropriated include matching social security, local retirement contributions, and insurance payments on behalf of the employees. Usually the dollar amount of the benefits to be paid is known, or can be computed as a percentage of salaries.

Another portion of the continuation budget must be allocated to supplies and operating expenditures. These are routine, day-to-day expenditures for office supplies, telephone, electricity, etc. Price changes, either caused by overall inflation, rate increases, or by specific incidents, must be considered here. Trend analysis can be useful in estimating these appropriations.

The other significant category of the continuation budget is replacement of existing capital items and repairs and maintenance. Estimated appropriations for these items can be determined from formal or informal quotes, State contracts, or uniform price lists. It is essential that these expenditures be made. Delayed maintenance or replacement of equipment can quickly reduce efficiency and result in very large capital outlay in future years to replace worn out equipment.

Simply because funds are requested as continuation appropriations does not guarantee their inclusion in the final budget proposal. It is the budget officer's responsibility to determine, in his or her opinion, whether current programs are still viable, and if so,

whether they need to be expanded or contracted. The governing board will make the final decisions about the ultimate appropriation to each program.

Appropriations for expansion expenditures:

Any requests for a "new" item or position (as opposed to a replacement of an existing item or filling of an existing position) are a part of the expansion budget. These items should be distinguished from the continuation budget items in the budget requests. Justification could include federal or State laws that require new expenditures, performance statistics showing the need for the expenditures being requested, and information on similar expenditures by units of similar size or close proximity. Your local attorney, auditor, council of governments, the League of Municipalities, the Association of County Commissioners, or the staff of the LGC can assist you by providing some of this information.

Capital Improvements Program

Most local governments will benefit from the use of a Capital Improvements Program (CIP) to assist them in planning and budgeting for their capital improvements. Many units do a CIP before the annual budget process begins. Using a CIP can help to effectively plan and organize capital expenditures. The local government benefits in a number of ways when capital improvements are planned for in advance, such as:

1. Capital facilities are replaced in an orderly manner and the use of "crash programs" to finance the construction of city facilities and major equipment is avoided.
2. Budgeting takes place within a system that assures that capital projects will be built according to a predetermined priority system while planning in advance for the revenue needed to finance and complete these capital projects.
3. Advance planning helps to ensure that projects are well thought out before beginning construction.
4. Major purchases may be scheduled in order to benefit from favorable market conditions.
5. Coordination with the operating budget is maximized. The effect capital expenditures have upon the annual operating cost of the city is an important aspect of capital improvement planning. When a new facility is established, it must be maintained and staffed, and obligations, which begin when it is made operational, will become continuous.
6. Interrelationships among projects are recognized. For example, the process can coordinate the timing of projects in the same location so as to avoid paving a street one year and tearing it up the next year to lay utility lines.
7. An overview of current and future capital requests is provided, which enables an assessment of all capital expenditures and establishes priorities in a comprehensive framework rather than through many piecemeal decisions.

Local governments that budget projects on an annual basis find that CIPs can be useful because the annual amount of capital expenditures needed for each project is determined by the plan. CIPs are also useful for units that prefer to use project budgeting for capital items, since the local government can approve project ordinances for each project that is initiated under the CIP.

The usual time frame for a CIP is five to six years. Shorter periods do not allow for adequate planning time for major projects, and longer periods result in more guessing than accurately estimating expected needs and costs. Developing a CIP is a time consuming process, and the unit should work on it well in advance of developing the annual budget. In this way, the annual financial needs determined by the CIP can be factored into the annual budget planning and request process.

Once the CIP is initially developed, it becomes a flexible planning tool. Each year the entire CIP is evaluated. New projects are added, and projects that are determined to be less critical or unnecessary are postponed or deleted. Projects once thought to be needed in the distant future can be initiated earlier if the need becomes more critical. Also, having a CIP does not forbid a unit from initiating a capital project that is not in the plan. All capital needs cannot be accurately forecast. However, if necessary projects that are not in the plan continually arise, the unit should evaluate the entire CIP process to determine how it can more accurately forecast capital needs. For further information see the Capital Improvement Program in Appendix J at the end of this section.

### **Estimating Fund Balance Available for Appropriation at July 1**

If a unit needs to use a portion of fund balance to bring the budget into balance, the amount available for appropriation at the beginning of the budget year must be estimated so that the actual appropriation in the final budget ordinance does not exceed the available amount, which is determined by law [G.S. 159-13(b)(16)]. The appropriation of fund balance in a proprietary fund to balance the operating budget is discouraged, as annual revenues should equal or exceed expenditures in a proprietary fund by definition. Retained earnings in proprietary funds are not legally available for appropriation. To determine the actual amount of fund balance available for appropriation, the balance sheet account balances at June 30 of the current year must be used. However, since the budget is likely to be completed before that date, the June 30 balances must be estimated. To estimate the June 30 balance sheet account balances, begin with accurate month-end balances, usually April 30 or May 31. Recurring expenditures such as salaries and other operating costs, should be easy to estimate. Other expenditures, such as debt service payments, may also be known in advance. Some revenue information, such as State and federal revenue distributions, may be available. Once revenues and expenditures for the time period are estimated, their effect on the balance sheet accounts can be determined. The estimated balance sheet numbers can then be used to calculate an estimated fund balance available for appropriation. If April or May balance sheets are usually comparable to June 30 balance sheets, local governments may be able to use these balances when estimating fund balance available for appropriation at July 1. Alternately, units also could perform a ratio analysis based on historical experiences in estimating available fund balance.

Fund balance available for appropriation in a particular fund may be calculated by beginning with the total of cash and investments for that fund, less fund liabilities, any reserves for encumbrances, and any deferred revenues that are a result of actual cash received, e.g. prepaid taxes and any other prepaid items or unearned revenues. This procedure may also be applied to the estimated balances from the previous paragraph. *(See the attached sample of the estimation procedure and subsequent calculation of estimated fund balance available at June 30 in Appendix H.)*

A calculation of fund balance available at June 30 should be made as soon as possible after the close of the fiscal year to determine the actual amount of fund balance available for appropriation. This figure is the maximum amount that can be appropriated during the coming year. If a greater amount has been appropriated, the budget ordinance should be amended immediately.

When a unit budgets fund balance, it should mark as much as possible for non-recurring spending. The budget officer should have a general plan in mind when budgeting and spending fund balance. The budget officer should consider which expenditures fund balance appropriated will support, how much fund balance may be depleted, has the governing board established a minimum fund balance available as a goal, what are the long-term effects on fund balance available, how quickly will replacement fund balance available recover when the unit no longer is in a position to budget and spend fund balance, etc. Also, a unit may be using general fund and other operating fund balances for to accumulate savings for use in the foreseeable future. See the section on capital reserve funds for a more detailed discussion on savings policies.

The budget officer of tax-levying units should keep in mind that in order to maintain an adequate cash flow in the General Fund, fund balance available for appropriation should not drop below 8% of total expenditures. This represents approximately one month's average expenditures. It should be noted that the 8% is a minimum requirement which is needed to meet a tax-levying unit's short-term cash flow needs. Most cities and counties need to maintain a higher percentage of fund balance on hand to have sufficient funds to quickly respond to emergencies and other unforeseen expenditures. For units which do not levy taxes, the appropriate level of fund balance is likely to be dependent upon the frequency and amount of funding received from State, federal and other sources.

### **Budgeting Amounts for Contingencies**

The contingency appropriation is used in the original budget ordinance to allow unanticipated increases to be made to departmental, functional, or program budgets. No actual expenditures can be made from the contingency appropriation. Funds must first be moved from the contingency appropriation to a department, a function, or a program area, and then expended. This movement of funds requires a board-approved budget amendment unless the board has authorized the budget officer to move moneys from one appropriation to another in the same fund (see the "Budget Amendments" section). In such cases, the budget officer must report these at the next board meeting for inclusion in the board meeting minutes. Amounts budgeted for contingencies in each fund cannot

exceed 5% of all other appropriations for the fund [G.S. 159-13(b)(3)]. For example, if all other General Fund appropriations total \$500,000, contingencies may legally be budgeted at \$25,000 or less. At this amount they equal to 5% of all other General Fund appropriations.

### **Submission of Budget to the Board**

Once the budget officer completes his or her review of the budget requests and makes any necessary changes, including the appropriation of fund balance as needed, the budget is then presented to the board for review. At this point the recommended budget should be in balance unless the board specifically requests that the budget officer not balance it prior to presentation. The board occasionally wants to see both the original department requests and revenue estimates (requested appropriations in excess of estimated revenues) and the budget officer's adjusted budget (balanced budget) so that the board members can determine what adjustments have already been made to the original requests from the department managers [G.S. 159-11].

Along with submitting the budget, the budget officer also must submit a budget message to the board [G.S. 159-11(b)]. This may be oral but is most likely written so that it will be available to anyone reviewing the budget at a later time. The statutes require that the message should contain a "concise explanation of the governmental goals fixed by the budget for the budget year", should explain "important features of the activities anticipated in the budget", should set forth "the reasons for stated changes from the previous year in program goals, programs, and appropriation levels", and should explain "any major changes in fiscal policy". The budget message is usually accompanied by a budget book or some other detailed document, which, in addition to detailing the budget requests, sometimes includes information about items of interest or concern to the unit, such as specific problems the unit is facing, economic factors which affect the budget, historical analyses of fees charged to users, and other similar data. The document also may include complete explanations and documentation of changes in the requested budget from the current year budget, as well as a statement of goals, policies, and performance indicators. For each program area, it may be beneficial to provide the board with a description of the levels and types of services being provided. This may help them understand how the unit's funds are being spent.

### **Board Review and Adoption of the Budget Ordinance**

Once the budget has been presented to the governing board, a public hearing concerning the budget must be scheduled and the budget must be filed with the clerk to the board (G.S. 159-12). The board must hold a public hearing before it can adopt the budget, and at least 10 days must pass between presentation of the budget to the board and adoption of the budget by the board [G.S. 159-13(a)]. Copies of the budget need to be made available to the media, and a statement must be published that the budget is available at the clerk's office for inspection by the general public [G.S. 159-12(a)]. The statement must also give notice of the time and place of the public hearing.

During the period of time between the presentation of the budget to the board and its adoption, which is a minimum of ten days, but is usually much longer, the board will review the budget and either make changes as the review is conducted or make all changes at the end of the budget process including the public hearing. The board may conduct its review during regular or special meetings. The notice requirements of the open meetings law [G.S. 143-318.12] must be complied with in relation to budget meetings and hearings, meaning that any public body with the power to hold hearings, deliberate, or take action on the budget must do so in public unless specifically allowed by law to hold executive sessions. (There are currently no such laws allowing executive sessions with reference to the budget process.) The board may go into executive session if only nonbudget related matters (e.g., personnel or real estate) are exclusive topics of conversation. Also, according to G.S. 159-17, each board member must be notified of each budget meeting and informed that only budget matters will be discussed at these particular meetings.

The board may take a very close look at the budget and make whatever changes it feels are necessary to carry out the policies of the unit, which is ultimately their responsibility.

Once the board has at least familiarized itself with the budget as presented by the budget officer, the public hearing can take place. The hearing may take place late in the review process so that the board may review the budget and determine what changes, if any, it wants to make to the budget as presented. However, some local governments have the hearing early in the review process. The entire budget should be discussed at the budget hearing, and any citizen of the unit must be permitted to address the board regarding the budget.

Once the hearing has taken place and the required ten days have passed since the presentation of the budget, the board can legally adopt the budget in the form of the budget ordinance. As discussed earlier, the ordinance must be adopted as a document, not simply by reference to its existence. The ordinance must be entered into the minutes of the board meeting at which it was adopted [G.S. 159-13(d)].

### **Appropriations Required in County Budgets**

Counties are required to have appropriations in their budgets for schools, social services, and health departments. Each of these areas is discussed below.

#### County and City School Systems

##### Current Expense And Capital Outlay:

Counties are required to make appropriations for both school current expense (operating costs) and school capital outlay (capital expenditures) [G.S. 115C-517, 521, 522, 524, and others]. However, the county board may choose the method by which these appropriations are made. The board may make lump-sum allocations to each fund, allowing the school board to spend it within each fund as they see fit. (Transfers between funds are allowed only in an unforeseen and unforeseeable emergency.) The county also may choose to allocate money to specific functions or purposes within the Local Current

Expense Fund or to certain projects within the Capital Outlay Fund or the Local Current Expense Fund. (The purposes, functions, or projects to which funds may be allocated within the Local Current Expense Fund are dictated by the Uniform Chart of Accounts as defined by the State Board of Education.) However, even if the county board allocates funds specifically to certain purposes or functions within the Local Current Expense Fund, the board of education is permitted to change the appropriation as long as the total county appropriation for the intended program or purpose does not change by more than 25% (the county board may specify a lower percentage but not less than 10%) [G.S. 115C-433(b)].

Continuing Contracts:

A county's appropriation to the school system must include an appropriation to cover the amount of funds needed to meet the school system's continuing contract obligations entered into for capital outlay purposes [G.S. 115C-441(c1)]. An administrative school unit may enter into a contract for capital outlay expenditures, some portion or all of which is to be performed and/or paid in ensuing fiscal years, without the budget resolution including an appropriation for the entire obligation, provided:

- 1) The budget resolution includes an appropriation authorizing the current fiscal year's portion of the obligation;
- 2) An unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year; and
- 3) Contracts for capital outlay expenditures are approved by a resolution adopted by the board of county commissioners, which resolution when adopted shall bind the board of county commissioners to appropriate sufficient funds in ensuing fiscal years to meet the amounts to be paid under the contract in those years.

Apportionment of County Current Expense Funds to More Than One School Administrative Unit:

If there is more than one public school administrative unit within a county (e.g. city school system), the county must apportion the current expense funds in such a manner that the per pupil apportionment is exactly the same for all systems, regardless of the school system. This is determined by dividing the county's current expense allocation to each school administrative unit by the official projected average daily membership of that school system as determined by the State Board of Education. The resulting allocation per student should be the same for all school systems.

Supplemental Taxes for School Districts:

A supplemental tax levied on residents of a school district is a voted tax that is levied by the county on behalf of the school administrative unit. The county decides how much tax to levy each year. The county collects the tax as well. However, the county does not have the authority to determine the allocation for the appropriation. The school administrative unit decides how it will spend the funds generated by the tax.

### Appropriations to Community Colleges:

A county is not obligated to appropriate funds to the community college system. However, if a county chooses to do so, the allocations are made to the community college's County Current Fund (operating expenses) and the Plant Fund (capital outlay). The allocation process is identical to that of the school administrative units. There are no requirements relating to apportionment.

### Social Services

Each county is required to appropriate a certain amount of funds for mandated social services programs each year [G.S. 108A-90]. The county's expected share is determined by the N.C. Department of Health and Human Services. Any county not appropriating its expected share risks not receiving its distributions from the State of funds appropriated by the State for public assistance and/or its share of beer and wine taxes [G.S. 108A-93]. The county can, at the board's discretion, appropriate funds for non-mandated social services programs as well [G.S. 153A-255].

### Public Health

Each county is required to provide public health services either through a county health department, participation in a district health department, or by contracting with the State to provide health services [G.S. 130A-34]. The public health board submits its budget requests to the county board each year as part of the county's budget process. However, the county board is not bound by any other legal restraints when considering these budget requests.

### **Capital Project and Grant Project Ordinances**

Some expenditures of a unit of government are better budgeted through a capital project or grant ordinance than through the annual budget ordinance. A capital project is one financed in whole or part by bond proceeds, notes, or other debt instruments or a project involving the construction or acquisition of a capital asset [G.S. 159-13.2(a)(1)]. A grant project is one which is "financed in whole or in part by revenues received from the federal and/or State government for operation or capital purposes as defined by the grant contract" [G.S. 159-13.2(a)(2)]. A grant or project ordinance is a budget ordinance covering the revenues and expenditures related to a particular project without regard to time.

These types of ordinances, which take the place of an annual budget ordinance for the activities in question, are best suited for large, complex projects that will take more than one fiscal year to complete or are not part of the unit's recurring operations and expenditures. For example, a unit receiving a CDBG grant to fund housing rehabilitation would likely take longer than one fiscal year to complete rehabilitation, and the rehabilitation is not a part of the unit's normal operations. If the unit decided to build a new sewer facility and finance it with bonds, the budget for the project could be set up as

a capital project ordinance. *[Note that G.S. 159-26(b)(6) would require that the construction activity financed by debt issues be accounted for in a separate capital project, an enterprise capital project in the preceding example. Whether the enterprise capital project fund has an annual budget or a project ordinance is a matter of local decision. The staff of the LGC generally recommends the use of project ordinances for capital projects.]* The advantage to using a grant or capital project ordinance is that the budget for the project is adopted one time to cover all expenditures expected to be needed to complete the project. Therefore, it is easy to determine exactly how much the project is expected to cost and the amount spent to date. If the project was annually budgeted, several years of budgets would have to be reviewed to obtain this information. (See the attached sample capital project ordinance.)

In some ways, a project or grant ordinance is very similar to an annual budget ordinance. The project ordinance must be adopted prior to funds being expended. The project ordinance must balance, that is estimated revenues must equal appropriations in each ordinance. Revenues in a project ordinance can include transfers from the annual budget ordinance, including expected transfers from future years' annual budgets. The project ordinance must clearly identify the project, authorize its undertaking, identify the revenues to be used to finance the project, and make the appropriations necessary to complete the project [G.S. 159-13.2(c)]. When a project ordinance is adopted, it must be entered into the board meeting minutes, and copies of the ordinance must be filed with the finance officer, budget officer, and clerk to the board within five days of adoption [G.S. 159-13.2(d)]. Project ordinances may be amended as long as the ordinance continues to fulfill the requirements of the law [G.S. 159-13.2(e)].

Information concerning any capital projects or grant projects expected to be authorized by project ordinances, or that will have appropriations for expenditure during the year under previously adopted project ordinances should be included in the budget as presented to the board [G.S. 159-11(d) and 159-13.2(f)]. Normally this information would consist of the total project authorization and the expected revenues and expenditures for the fiscal year for each project. This is provided as additional information to the governing board and should be presented in such detail as the board may request.

The North Carolina Department of Commerce requires that CDBG funds coming from their office be reported in a project ordinance. Additionally, the Department of Environment and Natural Resources (DENR) has adopted a similar policy requiring that projects funded with DENR funds be budgeted with a project ordinance. Failure to do so may result in a loss of funding from the granting agency to the local unit. *(The end result of the project should determine how it is classified, not the funding source. If the project will result in new assets for the water and sewer fund, the project should be an enterprise fund capital project. If the project does not produce a new asset for an enterprise fund, the project should likely be reported as a governmental fund. Budgetary documents should clearly reflect how this fund is to be classified.)*

Capital reserve funds [G.S. 159-18]:

Capital reserve funds are used to accumulate resources for ongoing or future capital projects. The funds must originate through a board-adopted resolution or ordinance. Capital reserve funds can be established for either governmental or enterprise capital purposes; however, the purpose must be stated when the fund is created. If the board decides that it would like to use funds in a capital reserve fund for a different purpose at a later date, it can amend the capital reserve ordinance. The funds must still be used for capital purposes [G.S. 159-19]. Capital reserve funds may be funded by appropriations from any other fund consistent with the limitations imposed in G.S. 159-13(b) [G.S. 159-20]. The cash balance of capital reserve funds may be deposited at interest or invested as provided by G.S. 159-30 [G.S. 159-21]. Transfers from a capital reserve fund must be authorized by the governing board through an ordinance or resolution, usually the budget ordinance or amendment to it. The governing board cannot authorize a transfer for a purpose that is not specified in the original resolution or ordinance establishing the fund, or in an amendment to the original resolution or ordinance. The resolution or ordinance should authorize the withdrawal in the form of an appropriation from the reserve fund to another fund [G.S. 159-22]. Transfers to other funds are the only types of appropriations that may be made in a capital reserve fund. These appropriations from the reserve fund cannot exceed the amount of available funds in the reserve fund and must be used for capital purposes only.

### **Internal Service and Trust and Agency Funds**

According to G.S. 159-8, internal service funds and trust and agency funds that have been so designated by the board are not required to operate under annual budgets. However, G.S. 159-13.1 requires a unit to file a financial plan for each internal service fund. This plan should detail estimated revenues and expenditures and the plan should balance. A financial plan differs from a budget in that it is in balance when estimated expenditures do not exceed estimated revenues. G.S. 159-11(d) requires that the plan be submitted by the budget officer to the board along with the annual budget. The plan must be approved by the board and can be amended. The plan and any amendments must be filed with the finance officer, budget officer, and clerk to the board within five days after approval. The board must approve all amendments to the plan.

Trust and agency funds are not required to operate under any type of annual budget or financial plan. Most trust and agency programs stand apart from a unit's normal operations; therefore, there is no need to include these funds in the annual budget. However, some trust and agency programs are involved in the normal course of a unit's operations, and may be included in the annual budget if the governmental unit chooses to do so. An example of such a program is a pension and other employee benefit trust fund or an scholarships/awards fund.

### **Budgeting for Vending Facility Operations**

Moneys that are received on account of the operation of vending facilities shall be deposited, budgeted, appropriated, and expended in accordance with the provisions of the Local Government Budget and Fiscal Control Act. G.S. 111-42(d) states that a vending facility includes a snack bar, cafeteria, restaurant, cafe, concession stand, vending stand, cart service, or other facilities at which food, drinks, novelties, newspapers, periodicals, confections, souvenirs, tobacco products, or related items are regularly sold. "Vending facilities" also means any mechanism dispensing items or something of value, or entertainment or services for a fee, regardless of the method of activation or means of payment [G.S. 143-12.1(g)].

If employee pools, such as coffee funds and flower funds, are not made available to the public and are not operated for a profit, they are not subject to the vending facility requirements. If non-employees are permitted to utilize facilities at the local government, such as snack or drink machines, snack bars, newsstands, etc., moneys received from these vending operations should be budgeted and accounted for as required by the Local Government Budget and Fiscal Control Act. The expenditure of these funds is subject to the public purpose requirements as are other budgeted funds.

### **Budget Administration**

The budget document, as of the first day of the fiscal year, becomes the primary instrument of decision within the local unit of government. Its real worth can be realized only if it is respected and followed. Administration of the budget is the function of all levels of management, extending at times below the department level. One important aspect of budget administration is planning the timing of expenditures over the entire fiscal year. This is important for three reasons: 1) to maintain operating efficiency by avoiding wide variations in workloads of the various departments; 2) to assure that sufficient funds remain available for operations in the closing months of the fiscal year without the need for budget amendments; and 3) to project cash flows for the investment program of the unit.

The manner in which budgets are administered varies. Several different methods can be identified. Many are widely used and several may simultaneously be utilized in the administration of a department or fund. Below are the more commonly used methods.

Budget authorization on a period basis:

Procedures can be established to authorize department heads to spend each line item (object of expenditure) only up to certain limits during a specified portion of the budget year. These limits may be allocated monthly, quarterly, or on some other period basis. They may result from a request by the department head or be based on a mathematical formula. The key factor in the method is that any excess spending from the limits set per period requires executive approval. This method works well with travel expenses, material and supply costs, and purchases for inventory.

Approval of annual, quarterly, or monthly work programs:

This procedure requires that the department head obtain the approval of the budget officer prior to the beginning of the period in which the scheduled work is to be performed. It may involve the redefinition of certain priorities. This method works well with ordinary recurring maintenance, equipment purchases, routine work, and special interest items.

Approval of specific projects:

This method requires specific managerial start-up approval for each project. The original justification for the project may be reviewed to determine its current validity. This method is used primarily for capital projects, major nonrecurring expenditure projects, and the expansion of service projects. Discretionary budget items are frequently handled in this manner.

Monitoring expenditures:

This method is frequently used with necessary, but not always predictable expenditures, such as utilities, postage, and automotive expenditures.

Control of salaries:

Due to the volatile and personal nature of employee pay, the control of salaries and the upgrading and filling of new positions should be placed exclusively in the hands of the manager or other executive officer. The resources to accommodate any change must be available, and the change must not create a morale problem among other employees. New positions and position upgrades represent recurring expenditures and should be analyzed carefully. Normally, it is not a good idea to use unexpended budgetary authority from nonrecurring appropriations to increase the amount of ongoing salary appropriations. The actual procedure that is employed may vary from the use of rigid salary grades and written authorization to the use of positions and salary statements as shown in the budget. Regardless of the procedure used in making salary and salary grade adjustments, fairness and equality of treatment must be present and evident to the employees.

Preaudit certificate:

In many small units, the preaudit certificate is used as the primary tool of budget administration. The finance officer may simply authorize disbursements as long as there are funds available and he or she can legally authorize such disbursements with the preaudit certificate. At times, if the unit's cash reserves are low, the finance officer may refuse to issue any preaudit certificate until he or she feels that adequate funds are available. Units using the preaudit certificate as a primary budget administration tool should compile and review budget to actual revenue and expenditure information on a periodic basis to ensure that funds will be available to meet the unit's needs throughout the fiscal year. G.S. 159-28(d) requires that the certificate on a check or disbursement take substantially the following form:

"This disbursement has been approved as required by the Local Government Budget and Fiscal Control Act.

---

(Signature of finance officer)"

Additionally, units using the preaudit requirements to manage the budget should remember that G.S. 159-28(a) requires obligations to be preaudited as they are incurred. As a unit enters into a contract or agreement requiring the unit to make payments in the future, the current budget must have an appropriation for the obligation and a sufficient amount of the appropriation must be unencumbered to allow for the payment of the obligation at its due date without exceeding the budget. While monitoring the budget through the preauditing process may easily become time consuming as a unit grows, it is an effective technique for maintaining spending within the budget ordinance.

### **Budget Amendments**

G.S. 159-15 authorizes the governing board to amend the budget ordinance at any time after the ordinance is adopted, so long as the amended ordinance continues to meet the requirements of G.S. 159-8 and 159-13. Budget amendments may not increase or decrease the tax levy or alter a taxpayer's liability unless the board is ordered to do so by the courts or an authorized State agency. Budget amendments may not increase the amount of tax revenue from the current levy to an amount that exceeds the percentage of taxes collected in the previous year, even if the revenue has actually been received (see "Estimating Revenues", pp. 8 - 10).

Budget amendments must be made prior to obligating funds in excess of budgeted appropriations at the level at which the budget has been adopted. G.S. 159-13(a) states that the budget ordinance may be in any form that the board considers most efficient in enabling it to make the fiscal policy decisions embodied therein, but it should make appropriations by department, function, or project and show revenues by major source. In practice some small units adopt line item budget ordinances. The staff of the Local Government Commission recommends that local governments do not adopt line item budget ordinances as the budget must then be amended at that level of detail. If revenues are less than estimated amounts, an amendment should be adopted to make these adjustments as well. Revenues should be budgeted only for amounts the unit can realistically expect to receive. Each fund in the budget must remain balanced; therefore, when there is a change in an estimated revenue or appropriation, there must be an offsetting adjustment to some other revenue or appropriation account(s) in order to keep the budget balanced.

An amendment should contain certain information, depending on its purpose. If the amendment is increasing an appropriation based on increased revenue, the amendment should specify the appropriation and its increase, as well as the revenue and its increase. Likewise, if the amendment is reducing one appropriation and increasing another, with no new revenue source, each appropriation should be listed along with the amount of

increase or decrease. Each amendment should balance. Total increases in appropriations should equal total decreases if no new revenues are involved. Total increases in appropriations should equal total increases in revenues if new revenues are involved. In all situations, a brief description of the circumstances surrounding the amendment should be on the face of the amendment or in the minutes where the amendment was approved.

Board approval or review should be indicated on each amendment, either by signature of the clerk to the board attesting to board approval or by including the actual amendment itself in the board meeting minutes. Most units number their amendments consecutively to keep track of them. Also, most units include the account numbers to which the changes are to be posted on the amendment form for ease in recording the changes. As discussed below, the board has the option of allowing the budget officer to make minor changes to the budget without obtaining prior board approval by formal budget amendments. Such changes must be within a fund and not between two or more funds. Section 14 of the attached sample county budget ordinance and Section 12 of the attached sample municipal budget ordinance detail some of the authorizations the board may wish to grant the budget officer, such as transferring amounts between objects of expenditures within a department without limitation and without reporting to the board. (*Note: These revisions should not result in changes to recurring obligations such as salaries.*) Other authorizations may include a required after-the-fact review by the board of any changes in appropriations not requiring prior board approval. Whatever authorizations, if any, that are granted are done so strictly by the board's decision and not as a requirement of law as long as the options only affect transfers within the same fund. These authorizations lapse at the end of the fiscal year and must be reapproved in future years.

The most important thing to remember about budget amendments affecting expenditure accounts is that they are to be made prior to funds being obligated. The finance officer, or person acting in that capacity, can be held personally liable for any obligations made that are not in accordance with the budget ordinance as it stands at the time the obligation is incurred. Therefore, if an obligation is made in excess of the budgeted appropriation, a violation of G.S. 159-28(a) has occurred, even if the ordinance is later amended to authorize the obligation and the resulting expenditure. (See the attached sample budget ordinance amendment.)

Budget amendments may be made after June 30 to the budget ordinance for the previous year to provide authorization for expenditures or obligations outstanding at year end. Amending the budget after year end does not “erase” any budgetary violations that may have occurred; the amendments signify that the spending was in accordance with the board’s intentions. The budget must be presented in the audited financial statements as it stood on June 30. If budgetary violations occurred during the year, at least a note disclosure in the audited financial statements should be included for statutory noncompliance. In the auditor’s opinion, material budgetary violations may also be reportable conditions or material weaknesses. Both of which should be disclosed appropriately.

Many units, within the actual budget ordinance, authorize the budget officer to move moneys from one appropriation, usually the contingency appropriation, to another within

the same fund if the total involved per transfer is less than a certain amount, for example \$1,000 (see the sample attached budget). Whenever the budget officer makes this type of adjustment, he or she is required to inform the board at the next meeting after the budget adjustment is made. In this way, although the board does not have to consider and vote on immaterial changes to the budget, it is kept abreast of changes so that they can be monitored. Also, the budget officer is limited by the dollar cap on the amount of adjustments he/she can make at any given time, and is not actually increasing overall appropriations, but only reallocating them.

### **Transfers Between Funds**

All transfers between funds must be budgeted and should be clearly identified as transfers. The total of all transfers-in for all funds must equal the total of all transfers-out for all funds. In other words, if a transfer-in is budgeted in one fund, a transfer-out must be budgeted in another fund or funds for the same amount. Unbalanced transfers may occur in the annual budget ordinance due to timing differences between transfers to a project ordinance and transfers between primary government and component units. This requirement for balanced transfers applies to amendments affecting transfers as well. All transfers between fund either in the originally enacted annual budget or in amendments to it must be approved by the governing board. Whenever a budgeted transfer is amended, it must be amended on both sides of the transaction. Transfers-in are included with revenue sources and transfers-out appear with appropriation items in the budget ordinance. Examples appear in the following appendices.

### **Interfund Loans**

Some units may choose to allow loans between funds. If this practice is permitted, it should be stated in the budget ordinance (see Appendices A and C). All loans between funds should be approved as required by the ordinance. Loans between funds that will be made and repaid during the same fiscal year do not need to be budgeted as a revenue and expense in the appropriate funds. However, any loans that will be made in one fiscal year and not repaid until a later fiscal year should be budgeted as an expenditure in the lending fund and as a revenue in the receiving fund. This budget entry will be reversed in the year that the loan is repaid. The governing board should approve loans between funds that will be outstanding more than one fiscal year.

Units may determine that it is not in their best interest to have one fund repay amounts owed to another. If the initial loan was budgeted, there is no need to charge the write-off against the budget. Since the original loan was budgeted as an appropriation, charging the write-off as an expenditure against the budget for a second time would not be correct. If interfund receivables and payables are written off, the governing board must document and approve the write-off.

### **Interim Budgets**

In unusual circumstances, a unit of government might not be able to meet the July 1 deadline for budget adoption because of uncertainties involving estimates of revenues or

an incomplete property revaluation, which could make a governing board reluctant to set a property tax rate. (*Note: Property tax rates cannot normally be changed during a fiscal year once they have been established in the annual budget ordinance.*) In the event that the adoption of the budget ordinance will be delayed until after July 1, an interim budget ordinance must be adopted to provide budgetary authority for any obligations that are incurred during the interval between the beginning of the budget year and the adoption of the annual budget ordinance. If the local government does not spend any money or incur any obligations between June 30 and the day the annual budget is adopted, an interim budget is not required. The local government must be very sure that no funds will be spent or obligated in order to exempt itself from the interim budget (See the "Preaudit certificate" discussion earlier). The authority to adopt an interim budget ordinance is defined in G.S. 159-16. Interim appropriations are made for the purpose of paying salaries, debt service, and the usual ordinary expenses of a unit of government. After the annual budget ordinance is adopted, expenditures under the interim ordinance will be charged to the proper appropriations in the annual budget ordinance.

A key point for local officials to consider is that an interim budget ordinance is designed to provide short-term budgetary authority to continue current operations. The statute's intent is not to include new programs or program expansions (unless they are legally mandated), salary and wage increases, extraordinary items, transfers, nor capital outlay appropriations. (*Note: Large capital projects will usually be authorized in a project ordinance. The project ordinance provides the necessary budgetary authority to continue a project.*) Also, this budgeting technique should not be routinely used. Even in times of uncertainty, units of government may be able to adopt an annual budget ordinance before July 1 and avoid utilizing an interim budget if adequate fund balance reserves are available. A local government may choose to adopt its annual budget ordinance, appropriating fund balance, in accordance with the General Statutes, in place of those revenues whose receipt is uncertain. The use of an interim budget by units of government with substantial reserves probably is unnecessary. In other words, local units should not use an interim budget unless it is absolutely required. Finally, if an interim budget is adopted, it should be utilized for the shortest possible period. A sample interim budget ordinance can be found in Appendix I. Our sample interim budget is designed for one month. A longer period of time could be used in some circumstances; however, the intent of G.S. 159-16 is that an interim budget should not be used for a lengthy period. This means that local officials should continue with the preparation of the annual budget ordinance. The budgetary timetable in G.S. 159-10 through G.S. 159-13 and on pages 6 and 7 of this policy should be followed, and local units should be prepared to adopt the annual budget ordinance as quickly as possible. G.S. 159-11 requires that the budget officer present the budget message and the proposed budget to the governing board by June 1. The proposed budget should be in balance at this point, unless the governing board specifically requests to see unadjusted (and therefore unbalanced) revenue and expense estimates. In any case, local governments should adopt an annual budget ordinance as soon as possible.

Local governments may adopt an annual budget for some funds and adopt an interim budget for only the General Fund if they choose to do so. The staff of the LGC does not recommend this as it results in a unit having more than one annual budget ordinance.

This may cause some confusion for some units of government that do not have extensive budget controls. Also, there is usually some interfund activity between the General Fund and the other funds of the unit, which may further confuse the situation.

Detailed assumptions and guidelines for an interim budget have been included in the assumptions and notes to preparer in Appendix I. Highlights of the sample are as follows:

1. An interim budget ordinance is designed to provide temporary budgetary authority for ongoing operations to be funded at their current level. This would include salaries and wages, debt service, the usual ordinary expenditures, emergency expenditures, legally mandated costs, and payments under leases or continuing contracts. Program expansions and new programs (unless legally mandated), transfers, and capital outlays should not be included. Interim budgets should only be used if substantial uncertainty exists relating to estimated revenues and appropriations and if inadequate reserves are available to allow budgeting flexibility. Rating agencies look on those units that use interim budget on a routine basis as a sign of poor management.
2. Sufficient appropriations must be included in the annual budget ordinance to cover all expenditures, encumbrances, and other obligations incurred under an interim budget ordinance. This means that a governing board is required to levy sufficient property taxes or other revenues to pay for these obligations. Expenditures under the interim budget ordinance will be charged to the appropriate account in the annual budget ordinance when it is adopted.
3. Although no funding sources are shown, available fund balance, interfund loans, or regular revenues (other than property taxes, which are not legally due until levied) must be available to fund any obligations that are incurred.
4. It is preferable that the annual budget ordinance and the interim ordinance include all annually budgeted funds when each is adopted. This will avoid the potential confusion of having an annual budget and an interim budget for selected funds in effect at the same time.
5. Certain adjustments in appropriations may be necessary due to changes in operating costs and the full funding of salaries, wages, and benefits when the annual budget is adopted.

### **Alternative Approaches to Budgeting**

The “approach” used in preparing a budget is nothing more than the system used to organize and present the information for budget preparation and review. Performance budgeting and zero-based budgeting are two alternatives to the traditional line item budgeting approach that is used by many units.

### **Performance Budgeting**

Performance budgeting, also known as program budgeting, emphasizes the relationship between funds budgeted and the goals achieved or the services provided by these funds when expended by the unit. This type of budgeting focuses on the demand for public services, the quantity and quality of the services provided, and the results obtained from providing them. Performance objectives and indicators are developed and approved as a part of the budget preparation. As the budget is executed, various data on performance are collected according to the indicators developed, to measure the extent to which the objectives are achieved.

Performance budgeting is more of a policy-making tool than line item budgeting. Performance budgeting emphasizes the benefits and drawbacks of spending funds on one program as opposed to spending them on another program. Generally, much larger amounts of money are at stake in these types of comparisons than in those among line items, as entire programs are being compared rather than the bits and pieces of operational activity in line items.

Performance budgeting requires that management identify performance objectives for the services that each functional area of the unit provides. Unit officials must review these objectives and agree on them. These objectives can then be used to show the citizens of the unit what the unit expects to achieve by expending its funds as dictated in the budget. The governing board must approve these objectives. Once it has done so, the board may then hold administrative officials accountable to the board and to the citizens for providing the services and achieving the approved objectives.

In performance budgeting, line-item expenditure levels can still be set and controlled by the budget officer as a means of enforcing spending ceilings and preventing the misapplication of public funds. The board also should maintain general control over the budget, but should hold the budget officer and management accountable for achieving the specified objectives within the budgeted fund.

Four types of performance measures are:

- a. workload measures - tells you "how much or "how many"
- b. efficiency measures - relates outputs to resources consumed (e.g., unit costs, output per labor-hour)
- c. effectiveness measures - tells you "how well" (e.g., indicators of quality or progress toward objectives)
- d. productivity measures - efficiency and effectiveness in a single indicator

A group of North Carolina cities and counties joined together with the Institute of Government and the North Carolina Local Government Budget Association (NCLGBA)

to create a project to measure performance and costs for several key services. The purposes of the project are:

1. To develop methods that local governments can use in their efforts to measure and assess the performance and costs of public services, and to test and refine these methods by applying them to a select group of local government services.
2. To produce reliable data that the participating cities and counties can use to assess the performance and costs of the services studied in the project.
3. To provide information to help governments identify performance benchmarks as well as innovative or improved methods of service delivery.

The results of this project may be obtained from the [Institute of Government](#) (general link). Click on the following link to the performance project web page.  
[Institute of Government Performance Project](#)

### **Zero-Based Budgeting**

Zero-based budgeting is a budgeting technique that uses what is called a “zero” base. In other words, the budget is developed each year without regard for current year expenditures or programs. Each year, every program or department must adequately justify every expenditure it makes in order to obtain funding. In theory, all program funding requests stand an equal chance of being approved, whether they are for expansions of current programs, maintenance of current programs, or new programs.

Zero-based budgeting has been advocated as a means of reducing expenditures in existing programs and allowing these funds to be applied to more pressing programs or to lower taxes. Theoretically, the starting point in the budget process is zero and therefore all expenditures are reviewed closely to see that they are justified. As a practical matter, units may choose a percentage of current expenditures necessary to provide a minimum level of service to be the base. For example, a unit may decide that 50% of current expenditures will be the base budget and all funding above that must be justified anew. In practice, existing funding stands a better chance of being approved than do requests for new funds. Using zero-based budgeting involves some practical problems. First, it is more time consuming and involves more work than conventional budgeting. At least some continuing expenditures must be reviewed and justified each year. Second, the political risks are generally higher than if the unit uses conventional budgeting. Officials that cut or attempt to cut programs often face at least some political fallout from those decisions. For these reasons, units should not undertake zero-based budgeting unless they are serious about making significant changes to their budgets.

In a research study by the North Carolina League of Municipalities, 7% of the 85 units surveyed were found to be using zero-based budgeting unit-wide. Another 18% are using this technique in selected areas of their operations.

### **Budgeting Emergency Management Funds**

In times of declared emergencies, local governments are eligible to receive federal and State financial assistance from the Federal Emergency Management Agency (FEMA) and the North Carolina Division of Emergency Management. While survey teams from these agencies will normally be on hand to complete Damage Survey Reports (DSRs) and review claims for reimbursement, governmental units should be aware of certain guidelines regarding use of disaster recovery funds. First, FEMA has a three-month time limit for listing claims for debris clearance. Second, proper documentation is important in the application process. Photographs, timesheets, records for equipment used, and other documentation can be used to support claims for reimbursement. Finally, certain restrictions apply to relief funds. Full reimbursement of salaries for employees involved in disaster relief operations is allowed only for the first eleven days, although this period may be extended for debris removal. Also, FEMA will pay a designated rate for equipment leased and also for the unit's equipment used in the clean-up, but no FEMA funds may be used to purchase equipment. Because the financial assistance is often on a reimbursement basis, local government units should consider what level of fund balance would be adequate to allow the unit to quickly respond to the public safety needs following a hurricane, tornado, or other natural disaster.

The accounting, financial reporting, and budgeting related to FEMA grants is relatively simple. Because of the unpredictable nature of disasters, it is not practical to establish a special revenue fund for disaster relief funds. Hopefully, units will not be in the situation to need or qualify for such funds on a regular basis. Therefore, grant funds, when received, should be accounted for in the general and/or utility funds of the unit, since clean-up usually relates to the functions normally financed by these two funds. Disaster relief funds are restricted intergovernmental revenues in a general fund and non-operating revenues in a utility fund. As such, these revenues are subject to the Local Government Budget and Fiscal Control Act and must be appropriated before they are expended. Units should maintain proper documentation of all expenditures and receipts of grant funds, including DSRs, and copies of the grant checks received in order to provide proper audit trails.

Units also may wish to provide their budget officers with the authority to transfer budgetary appropriations up to a specified dollar limit without prior board approval to facilitate expenditures in times of emergency. This authority should be detailed in the budget ordinance. [See the "Budget Amendments" section and the sample budget ordinances (Appendices A and C) in this policy for information on such authorizations.]

**Suggested Reading and Resources**

Allison, Greg, Finance Calendar of Duties for City and County Officials, Institute of Government. *Published annually.*

Carter, K. Lee, Vogt, A. John, Fund Balance in Local Government Budgeting and Finance 1989, Institute of Government.

Few, Paula K., Vogt, A. John, Measuring the Performance of Local Governments, 1997, Vol. 62, No. 2, Institute of Government.

Lawrence, David M., Financing Capital Projects in North Carolina, 1994, Second Edition, Institute of Government.

Lawrence, David M., Local Government Finance in North Carolina, 1990, Second Edition, Institute of Government.

Lawrence, David M., The Local Government Budget and Fiscal Control Act, 1988, Fourth Edition, Institute of Government.

Rivenbark, William C., Guide to the North Carolina Local Government Performance Measurement Project, 2001, Institute of Government

Vogt, A. John, Coe, Charles K., A Close Look at North Carolina City and County Budget Practices, 1993, Volume 59, No. 1.

Final Report on County Services for Fiscal Year 1999-2000: Performance Cost Data, February 2001, Institute of Government. *Note that the Final Report for 1998-1999 is also available from the Institute.*

Final Report on City Services for Fiscal Year 2001-2002: Performance Cost Data, February 2003, Institute of Government. *Note that the Final Reports for 1999-2000 and 2000-2001 are also available from the Institute*

Performance and Cost Data Phase I: City Services, October 1997, Institute of Government.

Performance and Cost Data Phase II: County Services, May 1998, Institute of Government.

Performance and Cost Data Phase III: City Services, Medium and Smaller Cities, March 1999, Institute of Government.

Performance and Cost Data Phase III: County Services, Medium and Smaller Counties, March 1999, Institute of Government.

**Selected web sites:**

[North Carolina Department of State Treasurer](http://www.treasurer.state.nc.us)  
www.treasurer.state.nc.us

[Institute of Government](http://ncinfo.iog.unc.edu/)  
http://ncinfo.iog.unc.edu/

[NC Assoc. of County Commissioners](http://www.ncacc.org)  
www.ncacc.org

[NC League of Municipalities](http://www.nclm.org)  
www.nclm.org

[North Carolina General Assembly](http://www.ncga.state.nc.us) (listing of General Statutes)  
www.ncga.state.nc.us

**APPENDIX A - SAMPLE BUDGET ORDINANCE (County)**

BE IT ORDAINED by the Board of Commissioners of Carolina County, North Carolina

Section 1: The following amounts are hereby appropriated in the General Fund for the operation of the county government and its activities for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2, in accordance with the chart of accounts heretofore established for this County:

General Government	\$ 6,278,901
Public Safety	7,090,414
Environmental Protection	1,017,860
Transportation	123,656
Economic and Physical Development	1,316,992
Human Services	23,776,951
Cultural and Recreational	2,312,261
Education	41,418,016
Debt Service	1,311,070
Transfer to Revaluation Fund	68,816
Residual Equity Transfer to Water and Sewer Fund	<u>100,000</u>
Total Appropriations	<u>\$84,814,937</u>

Section 2. It is estimated that the following revenues will be available in the General Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2.

Current year's real property taxes	\$51,690,663
Current year's motor vehicle taxes	522,128
Prior years' real property taxes	1,957,860
Prior years' motor vehicle taxes	19,776
Penalties and interest on real property taxes	546,451
Penalties and interest on motor vehicle taxes	5,520
Local Option Sales Tax	12,482,335
Real estate transfer taxes	131,095
Privilege licenses	145,203
Payments in lieu of taxes	76,147
Beer and wine excise tax	690,363
Senior citizen tax exemption refunds	19,840
Food stamp tax reimbursement	3,128
State grants	7,351,288
Federal grants	5,114,584
Court facilities fees	1,421,584
Building permits and inspection fees	23,158

Register of Deeds	330,911
Rents, concessions, and fees	713,316
Jail fees	28,716
Ambulance fees	110,678
Recreation department fees	185,990
Investment earnings	1,032,500
Sale of materials	68,366
Miscellaneous*	<u>143,337</u>
Total estimated revenues	<u>\$84,814,937</u>

\*Amounts budgeted in total as miscellaneous revenues should be broken out separately for financial reporting purposes.

Section 3. The following amounts are hereby appropriated in the Fire District fund for the operation of fire protection services for the fiscal year beginning July 1, 20X1, and ending June 30 20X2, in accordance with the chart of accounts heretofore established for this county:

Public safety - Fire District 1	\$ 9,800
Public safety - Fire District 2	<u>11,000</u>
Total appropriations	<u>\$20,800</u>

Section 4. It is estimated that the following revenues will be available in the Fire District Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Current year taxes	\$19,200
Prior years' taxes	1,500
Investment earnings	<u>100</u>
Total estimated revenues	<u>\$20,800</u>

Section 5. The following amounts are hereby appropriated in the Revaluation Fund for the revaluation of property in Carolina County during the fiscal year beginning July 1, 20X1, and ending June 30, 20X2, in accordance with the chart of accounts heretofore established for this county:

General Government - tax revaluation	<u>\$585,500</u>
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Section 6. It is estimated that the following revenues will be available to the Revaluation Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Investment earnings	\$ 36,000
Transfer from General Fund	68,816
Appropriated Fund Balance	<u>480,684</u>
Total estimated revenues	<u>\$585,500</u>

NOTE TO PREPARER: Sections 5 and 6 (above) are the portion of the budget ordinance that apply to a Revaluation Fund in the year of property revaluation. Below are sample sections for a Revaluation Fund in years during which property revaluation will not take place:

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Section 5. The following amounts are hereby appropriated in the Revaluation Fund for the future revaluation of property in Carolina County during the fiscal year beginning July 1, 20X1, and ending June 30 20X2, in accordance with the chart of accounts heretofore established for this county:

Reserve for revaluation	<u>\$104,816</u>
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Section 6. It is estimated that the following revenues will be available to the Revaluation Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Investment earnings	\$ 36,000
Transfer from General Fund	<u>68,816</u>
Total estimated revenues	<u>\$104,816</u>

Section 7. The following amounts are hereby appropriated in the Landfill Fund for the operation of the County Landfill for the fiscal year beginning July 1, 20X1, and ending June 30 20X2, in accordance with the chart of accounts heretofore established for this county:

Landfill administration	\$ 25,000
Landfill operations	<u>148,000</u>
Total appropriations	<u>\$173,000</u>

Section 8. It is estimated that the following revenues will be available to the Landfill Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Solid waste charges	\$169,769
Recycling	2,336
Other operating revenue	95
Investment earnings	<u>800</u>
Total estimated revenues	<u>\$173,000</u>

Section 9. The following amounts are hereby appropriated in the Water and Sewer Fund for the operation of the County's water and sewer system for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2, in accordance with the chart of accounts heretofore established for this county:

Water and sewer administration	\$ 90,315
Finance	32,200
Water treatment plant	74,880
Raw water pump station	27,500
Water distribution	155,750
Sewage collection system	90,485
Primary waste treatment	43,250
Secondary waste treatment	5,600
Debt Service	<u>351,020</u>
Total appropriations	<u>\$871,000</u>

Section 10. It is estimated that the following revenues will be available to the Water and Sewer Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Water sales	\$417,670
Sewer charges	344,330
Water and sewer taps	8,500
Other operating revenues	500
Residual equity transfer from General Fund	<u>100,000</u>
Total estimated revenues	<u>\$871,000</u>

Section 11. There is hereby levied a tax at the rate of eighty three cents (\$0.83) per one hundred dollars (\$100) valuation of property listed as of January 1, 20X1, for the purpose of raising revenue included in "Ad Valorem Taxes - Current Year" in the General Fund in Section 2 of this ordinance.

This rate of tax is based on an estimated total valuation of property for the purpose of taxation of \$6,552,810,116 and an estimated collection rate of 96%. The estimated rate of collection is based on the fiscal 20X0-20X1 collection rate of 97.4%.

Section 12. There is hereby levied a tax at the rate of twelve cents (\$0.12) per one hundred dollars (\$100.00) valuation of property listed for taxes as of January 1, 20X1, located within the Special Fire District #1 for the raising of revenue for said Special Fire District. This rate of tax is based on an estimated total valuation of property for the purposes of taxation of \$8,189,167 and an estimated collection rate of 97%. The estimated rate of collection is based on the fiscal year 20X0-20X1 collection rate of 99.1%.

Section 13. There is hereby levied a tax at the rate of ten cents (\$0.10) per one hundred dollars (\$100.00) valuation of property listed for taxes as of January 1, 20X1, located within the Special Fire District #2 for the raising of revenue for said Special Fire District. This rate of tax is based on an estimated total valuation of property for the purposes of taxation of \$10,177,000 and an estimated collection rate of 95%. The estimated rate of collection is based on the fiscal year 20X0-20X1 collection rate of 96.7%.

Section 14. The Budget Officer is hereby authorized to transfer appropriations as contained herein under the following conditions:

- a. He/she may transfer amounts between line item expenditures within a department without limitation and without a report being required. These changes should not result in increases in recurring obligations such as salaries.
- b. He/she may transfer amounts up to \$1,000 between departments, including contingency appropriations, within the same fund. The budget officer must make an official report on such transfers at the next regular meeting of the Board of Commissioners.
- c. He/she may not transfer any amounts between funds, except as approved by the Board of Commissioners in the Budget Ordinance as amended.

Section 15. The Budget Officer may make cash advances between funds for periods not to exceed 60 days without reporting to the Board of Commissioners. Any advances that extend beyond 60 days must be approved by the Board. All advances that will be outstanding at the end of any fiscal year must be approved by the Board.

Section 16. Copies of this Budget Ordinance shall be furnished to the Clerk to the Board of Commissioners and to the Budget Officer and Finance Officer to be kept on file by them for their direction in the disbursement of funds.

Adopted this \_\_\_\_\_ day of June 20X1

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*NOTES TO UNITS: As you can see from this sample ordinance, there are no annually budgeted capital project funds. All projects that will take more than one year to complete or will result in a large, long- lived asset should be budgeted in a capital project ordinance. (See attached sample capital project ordinance.) Smaller capital outlay expenditures, such as for automobiles, should be budgeted within the appropriate functional area of the fund that will benefit from the expenditure.*

<b>APPENDIX B – SAMPLE COUNTY BUDGET WORKSHEET</b>									
<b>Carolina County</b>									
<b>ANNUAL BUDGET ESTIMATE - REVENUES</b>									
<b>Fiscal Year: 20X1 - 20X2</b>									
<b>Code: 11</b>	<b>Fund: General</b>		<b>Department: Revenue Summary</b>				<b>Page No.</b>		
	<b>Number</b>	<b>Actual</b>	<b>Budget</b>	<b>Actual to February 28</b>	<b>Estimated Entire Year</b>	<b>Budget Officer's Estimate</b>	<b>Approved Estimate</b>	<b>Current Year</b>	<b>Coming Year</b>
Ad Valorem Taxes:									
Current Year's Real Property	11-31X4-110	\$49,141,096	\$50,438,149	\$50,492,762	\$50,558,652	\$52,313,442	\$51,690,663		
Prior Year's Real Property	11-31X3-110	1,705,633	1,747,350	1,652,633	1,790,914	1,957,860	1,957,860		
Penalties and Interest	11-31X3-170	469,190	490,550	419,632	492,650	546,451	546,451		
Current Year's Motor Vehicle	11-31X4-115	496,375	509,476	510,028	510,693	528,419	522,128		
Prior Year's Motor Vehicle	11-31X3-115	17,228	17,650	16,693	18,090	19,776	19,776		
Penalties and Interest	11-31X4-175	4,739	4,950	4,239	4,976	5,520	5,520		
Other Taxes and Licenses:									
Local Option Sales Tax	11-3230-120	9,236,892	9,590,475	7,274,053	9,698,737	12,482,305	12,482,335		
Real Estate Transfer Tax	11-3240-110	140,601	145,650	110,724	147,632	131,095	131,095		
Privilege Licenses	11-3260-110	125,283	130,500	98,661	131,548	145,203	145,203		
Unrestricted Intergovernmental:									
Payment in Lieu of Taxes	11-3311-210	71,425	70,000	56,247	74,997	76,147	76,147		
Beer and Wine	11-3322-310	649,931	680,000	511,821	682,428	690,363	690,363		
Senior Citizens Tax Exemption Refund	11-3326-353	17,319	18,000	14,210	18,291	19,840	19,840		
Food Stamp Tax Reimbursement	11-3525-310	2,851	2,750	2,150	2,994	3,128	3,128		
Totals									

Carolina County									
ANNUAL BUDGET ESTIMATE - REVENUES									
Fiscal Year: 20X1 - 20X2									
Code: 11	Fund: General			Department: Revenue Summary			Page No.		
	Account	Number	Last Year Actual	Budget	Actual to February 28	Estimated Entire Year	Budget Officer's Estimate	Comming Year	Approved Estimate
Restricted Intergovernmental:									
State Grants	11-XXXX-300		6,787,998	7,127,000	6,291,327	7,127,398	7,351,288	7,351,288	7,351,288
Federal Grants	11-XXXX-200		6,307,865	6,000,000	5,837,059	6,007,491	5,114,584	5,114,584	5,114,584
Court Facilities Fees	11-3323-300		1,259,580	1,320,000	992,819	1,322,559	1,421,584	1,421,584	1,421,584
Permits and Fees:									
Building Permits	11-3343-890		4,496	4,000	3,502	4,721	5,000	5,000	10,000
Register of Deeds	11-3344-890		303,375	310,000	191,127	318,544	330,911	330,911	330,911
Inspection Fees	11-3345-890		5,978	6,000	4,659	6,277	6,579	6,579	13,158
Sales and Services:									
Jail Fees	11-3432-410		23,830	23,000	18,765	25,022	28,716	28,716	28,716
Ambulance Fees	11-3437-410		85,691	85,000	69,492	89,976	91,250	91,250	110,678
Recreation Fees	11-3612-410		113,839	118,000	79,559	119,531	120,460	120,460	185,990
Concessions	11-3839-480		183,310	191,500	134,257	192,477	196,825	196,825	237,772
Rents and Fees	11-3834-860		372,485	390,000	293,323	391,111	400,000	400,000	475,544
Investment Earnings	11-3831-491		1,497,375	1,450,000	1,098,805	1,465,073	1,032,500	1,032,500	1,032,500
Totals									



Carolina County											
ANNUAL BUDGET ESTIMATE - EXPENDITURES											
Fiscal Year: 20X1 - 20X2											
Code: 11	Fund: General	Department	Expenditure Summary						Page No.		
			Last Year	Actual	Budget	Actual to February 28	Estimated Mar./June	Estimated Entire Year	Requested	Recommended	Coming Year
General Government:											
	11-4110-000		\$124,361	\$130,000	\$130,000	\$104,507	\$23,568	\$128,075	\$135,000	\$135,000	\$135,000
	11-4120-000		277,219	294,090	294,090	203,959	88,075	292,034	335,130	335,130	317,465
	11-4170-000		372,461	378,000	378,000	251,428	126,092	377,520	370,825	367,800	367,800
	11-4130-000		659,465	661,075	661,075	429,532	214,766	644,298	721,500	721,500	725,035
	11-4140-000		1,515,103	1,646,130	1,646,130	1,108,453	534,830	1,643,283	1,742,925	1,700,200	1,679,101
	11-4150-000		46,840	48,000	48,000	32,000	16,000	48,000	50,000	50,000	50,000
	11-4180-000		165,983	168,750	168,750	112,237	56,288	168,525	375,000	375,000	375,000
	11-4190-000		1,060,156	1,069,000	1,069,000	613,725	455,225	1,068,950	1,070,000	1,069,500	1,069,500
	11-4160-000		1,380,723	1,382,000	1,382,000	920,900	460,450	1,381,350	1,385,000	1,385,000	1,385,000
	11-4250-000		171,205	173,800	173,800	115,617	57,983	173,600	175,000	175,000	175,000
			5,773,516	5,950,845	5,950,845	3,892,358	2,033,277	5,925,635	6,360,380	6,314,130	6,278,901
Public Safety:											
	11-4310-000		3,908,511	3,982,250	3,982,250	2,650,782	1,329,372	3,980,154	4,250,750	4,100,000	4,020,114
	11-4320-000		1,369,718	1,395,000	1,395,000	928,953	465,872	1,394,825	1,500,000	1,418,000	1,418,000
	11-4340-000		416,152	425,750	425,750	282,238	141,543	423,781	425,000	424,200	424,200
	11-4350-000		1,044,124	1,065,360	1,065,360	708,133	355,130	1,063,263	1,063,600	1,063,600	1,063,600
			6,895,499	7,028,360	7,028,360	4,678,260	2,343,635	7,021,895	7,402,350	7,170,300	7,090,414
Totals											
NUMBER OF EMPLOYEES: Prior Years			Current Year	Requested	Recommended						

<b>Carolina County</b>											
<b>ANNUAL BUDGET ESTIMATE - EXPENDITURES</b>											
<b>Fiscal Year: 20X1 - 20X2</b>											
<b>Code: 11</b>	<b>Fund: General</b>	<b>Department:</b>	<b>Expenditure Summary</b>						<b>Page No.</b>		
			<b>Last Year</b>			<b>Current Year</b>			<b>Coming Year</b>		
<b>Object of Expenditure</b>	<b>Number</b>	<b>Actual</b>	<b>Budget</b>	<b>Actual to February 28</b>	<b>Estimated Mar./June</b>	<b>Estimated Entire Year</b>	<b>Requested</b>	<b>Recommended</b>	<b>Approved by Board</b>		
Transportation:											
Streets & Highways	11-4510-000	119,873	121,745	91,308	30,259	121,567	128,900	126,000	123,656		
Environmental Protection											
Sanitation	11-4710-000	1,005,621	1,016,000	676,489	339,261	1,015,750	1,025,000	1,017,000	1,017,860		
Economic & Physical Development											
Planning & Zoning	11-4910-000	313,889	323,600	212,882	106,761	319,643	326,500	325,024	325,024		
Agricultural Extension	11-4950-000	25,003	25,650	16,957	8,505	25,462	26,500	26,500	26,500		
Special Employment Programs	11-4940-000	949,721	951,000	614,454	335,572	950,026	965,468	965,468	965,468		
Total		1,288,613	1,300,250	844,293	450,838	1,295,131	1,318,468	1,316,992	1,316,992		
Human Services:											
Health	11-5100-000	1,667,919	1,698,500	1,131,195	567,297	1,698,492	1,705,500	1,705,500	1,705,500		
Mental Health	11-5200-000	3,559,682	3,625,000	2,414,204	1,210,727	3,624,931	3,636,000	3,636,000	3,636,000		
Veterans Service	11-5820-000	171,846	175,000	116,547	58,449	174,996	175,250	175,000	175,000		
Hospital	11-5700-000	2,576,522	2,614,748	1,908,313	706,272	2,614,585	1,370,000	1,360,451	1,360,451		
Totals											
<b>NUMBER OF EMPLOYEES: Prior Years</b>		<b>Current Year</b>			<b>Requested</b>			<b>Recommended</b>			









**APPENDIX C – SAMPLE BUDGET ORDINANCE (Municipality)**

BE IT ORDAINED by the Governing Board of the Town of Anywhere, North Carolina:

Section 1: The following amounts are hereby appropriated in the General Fund for the operation of the town government and its activities for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2, in accordance with the chart of accounts heretofore established for this Town:

General Government	\$119,405
Public Safety	157,860
Transportation	201,205
Sanitation	35,000
Culture and Recreation	51,275
Debt Service	25,975
Transfer to Wastewater Treatment	
Capital Reserve	5,000
Transfer to Municipal Capital Reserve	10,000
Contingency Appropriation	<u>5,000</u>
	<u>\$610,720</u>

Section 2. It is estimated that the following revenues will be available in the General Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Current year's real property taxes	\$205,980
Current year's motor vehicle taxes	20,500
Prior years' real property taxes	2,000
Prior years' motor vehicle taxes	800
Penalties and interest on real property taxes	1,500
Penalties and interest on motor vehicle taxes	200
Powell Bill funds	47,400
Franchise taxes	57,800
Charges for current services	28,400
Local option sales tax	175,540
Other revenues	8,600
Interest on investments	55,000
Transfer from Water and Sewer Fund	<u>7,000</u>
	<u>\$610,720</u>

Section 3. The following amounts are hereby appropriated in the Municipal Building Capital Reserve Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2 in accordance with the chart of accounts heretofore approved for the Town:

Reserve for future expenditures	\$ <u>10,000</u>
---------------------------------	------------------

Section 4. It is estimated that the following revenues will be available in the Municipal Building Capital Reserve Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Transfer from General Fund	\$ <u>10,000</u>
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Section 5. The following amounts are hereby appropriated in the Water and Sewer Fund for the operation of the water and sewer utilities for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2, in accordance with the chart of accounts heretofore approved for the Town:

Water operations department	\$ 41,000
Sewer operations department	32,700
Water and sewer maintenance department	91,060
Debt service	28,800
Transfer to General Fund	7,000
Contingency appropriation	<u>9,000</u>
	<u>\$209,560</u>

Section 6. It is estimated that the following revenues will be available in the Water and Sewer Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Water usage charges	\$140,600
Sewer usage charges	56,240
Taps and connection fees	6,000
Other revenues	<u>6,720</u>
	<u>\$209,560</u>

Section 7. The following amounts are hereby appropriated in the Electric Fund for the operation of the electric utility for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2, in accordance with the chart of accounts heretofore approved for the Town:

Electric operations department	\$250,540
Electric maintenance department	148,150
Transfer to Municipal Building Project Fund	15,000
Contingency appropriation	<u>15,000</u>
	<u>\$428,690</u>

Section 8. It is estimated that the following revenue will be available in the Electric Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Electric usage charges	\$422,000
Other revenue	<u>6,690</u>
	<u>\$428,690</u>

Section 9. The following amounts are appropriated in the Wastewater Treatment Capital Reserve Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Transfer to Wastewater Treatment Plant Capital Project	<u>\$ 20,800</u>
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Section 10. It is estimated that the following revenues will be available in the Wastewater Treatment Capital Reserve Fund for the fiscal year beginning July 1, 20X1, and ending June 30, 20X2:

Transfer from General Fund	\$ 5,000
Fund Balance Appropriated	<u>15,800</u>
	<u>\$ 20,800</u>

Section 11. There is hereby levied a tax at the rate of fifty cents (\$0.50) per one hundred dollars (\$100) valuation of property as listed for taxes as of January 1, 20X1, for the purpose of raising the revenue listed "Current Year's Property Taxes" in the General Fund in Section 2 of this ordinance.

This rate is based on a total valuation of property for the purposes of taxation of \$47,391,667 and an estimated rate of collection of 94%. The estimated rate of collection is based on the fiscal 20X0-20X1 collection rate of 96.4%.

Section 12. The Budget Officer is hereby authorized to transfer appropriations as contained herein under the following conditions:

- a. He/she may transfer amounts between line item expenditures within a department without limitation and without a report being required. These changes should not result in increased in recurring obligations such as salaries.
- b. He/she may transfer amounts up to \$1,000 between departments, including contingency appropriations, within the same fund. He must make an official report on such transfers at the next regular meeting of the Governing Board.
- c. He/she may not transfer any amounts between funds, except as approved by the Governing Board in the Budget Ordinance as amended.

Section 13. The Budget Officer may make cash advances between funds for periods not to exceed 60 days without reporting to the Governing Board. Any advances that extend beyond 60 days must be approved by the Board. All advances that will be outstanding at the end of the fiscal year must be approved by the Board.

Section 14. Copies of this Budget Ordinance shall be furnished to the Clerk to the Governing Board and to the Budget Officer and Finance Officer to be kept on file by them for their direction in the disbursement of funds.

Adopted this \_\_\_\_\_ day of June, 20X1

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*NOTE TO UNITS: As you can see from this sample ordinance, there are no annually budgeted capital project funds. All projects that will take more than one year to complete or will result in a large long-lived asset should be budgeted in a capital project ordinance. (See attached sample capital project ordinance.) Smaller capital outlay expenditures, such as for automobiles, should be budgeted within the appropriate functional area of the fund that will benefit from the expenditure.*

**APPENDIX D - SAMPLE CAPITAL PROJECT ORDINANCE**

BE IT ORDAINED by the Governing Board of the Town of Anywhere, North Carolina, that, pursuant to Section 13.2 of Chapter 159 of the General Statutes of North Carolina, the following capital project ordinance is hereby adopted:

Section 1. The project authorized is the construction of a wastewater treatment plant to be financed by the sale of general obligation bonds, a federal grant, and reserves.

Section 2. The officers of this unit are hereby directed to proceed with the capital project within the terms of the bond resolution, grant documents, and the budget contained herein.

Section 3. The following amounts are appropriated for the project:

Engineering	\$ 120,000
Land	90,000
Construction	<u>1,440,000</u>
	<u>\$1,650,000</u>

Section 4. The following revenues are anticipated to be available to complete this project:

Proceeds from general obligation bonds	\$1,100,000
Federal grant	500,000
Investment earnings	29,200
Transfer from Wastewater Treatment	
Capital Reserve	<u>20,800</u>
	<u>\$1,650,000</u>

Section 5. The Finance Officer is hereby directed to maintain within the Capital Project Fund sufficient specific detailed accounting records to satisfy the requirements of the grantor agency, the grant agreements, and federal regulations. The terms of the bond resolution also shall be met.

Section 6. Funds may be advanced from the General Fund for the purpose of making payments as due. Reimbursement requests should be made to the grantor agency in an orderly and timely manner.

Section 7. The Finance Officer is directed to report, on a quarterly basis, on the financial status of each project element in Section 3 and on the total grant revenues received or claimed.

Section 8. The Budget Officer is directed to include a detailed analysis of past and future costs and revenues on this capital project in every budget submission made to this Board.

Section 9. Copies of this capital project ordinance shall be furnished to the Clerk to the Governing Board, and to the Budget Officer and the Finance Officer for direction in carrying out this project.

Adopted this \_\_\_\_\_ day of June 20X1

**APPENDIX E - SAMPLE BUDGET ORDINANCE AMENDMENT**

BE IT ORDAINED by the Governing Board of the Town of Anywhere, North Carolina, that the following amendment be made to the annual budget ordinance for the fiscal year ending June 30, 20X2:

Section 1. To amend the General Fund, the appropriations are to be changed as follows:

Acct. No.		<u>Decrease</u>	<u>Increase</u>
XXXX	Administration		\$ 9,814
XXXX	Finance		<u>25,672</u>
XXXX	Streets (Powell Bill)	\$ 1,888	
XXXX	Culture and recreation	<u>1,000</u>	
		<u>\$ 2,888</u>	<u>\$35,486</u>

This will result in a net increase of \$32,598 in the appropriations of the General Fund. To provide the additional revenue for the above, the following revenues will be increased. These additional revenues have already been received:

Acct. No.		
XXXX	Current year's property taxes*	\$32,398
XXXX	Local Option Sales Tax	<u>200</u>
		<u>\$32,598</u>

Section 2. Copies of this budget amendment shall be furnished to the Clerk to the Governing Board, and to the Budget Officer and the Finance Officer for their direction.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_ 20X2

*\* This assumes that for budgeting purpose, the Town used an estimated collection rate lower than the amount established by State law [G.S. 159-13(b)(6)] and that the amended collection rate is equal to or less than the allowable limit.*

**APPENDIX F -- SAMPLE CAPITAL RESERVE RESOLUTION**

RESOLUTION

ESTABLISHMENT AND MAINTENANCE  
OF THE  
MUNICIPAL BUILDING CAPITAL RESERVE FUND

WHEREAS, there is a need in the Town of Anywhere, North Carolina to construct a municipal building; and

WHEREAS, the land on which the municipal building is to be constructed has been donated to the Town; and

WHEREAS, the Town must bear the cost of constructing the municipal building at an estimated cost of \$200,000.

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BOARD THAT:

Section 1. The Governing Board hereby creates a Capital Reserve Fund for the purpose of constructing a municipal building.

Section 2. This fund will remain operational for a period not to exceed five years (beginning July 1, 20X1 and ending June 30, 20X6) or until a cumulative sum not to exceed two hundred thousand dollars (\$200,000) has been received.

Section 3. The Board will appropriate or transfer an amount of no less than \$10,000 each year from other funds to this fund.

Section 4. This resolution shall become effective upon its adoption.

**APPENDIX G - SAMPLE FINANCIAL PLAN  
INTERNAL SERVICE FUND**

July 1, 20X1 - June 30, 20X2

The following are the estimated expenditures for the Internal Service Fund for Municipal Garage Operations:

Administrative	\$ 22,000
Gasoline	10,000
Maintenance and materials	8,000
Capital outlay	18,000
Insurance	2,000
Reserve for future capital outlay	<u>12,000</u>
Total estimated expenditures	<u>\$ 72,000</u>

The following are the estimated revenues for the Internal Service Fund for Municipal Garage Operations:

General Fund	\$ 17,000
Water and Sewer Fund	22,000
Electric Fund	<u>33,000</u>
Total estimated revenues	<u>\$ 72,000</u>

**APPENDIX H - ESTIMATION OF FUND BALANCE AVAILABLE FOR  
APPROPRIATION  
SAMPLE CALCULATION**

For Fiscal Year Ending June 30, 20X1

Computation of Fund Balance Available for Appropriation in the General Fund at April 30 from  
the General Ledger

Cash and investments:	<u>\$200,000</u>
Less: Liabilities (1)	32,000
Encumbrances (2)	22,200
Deferred revenues from cash receipts (3)	0
	-----
Total deductions:	<u>54,200</u>
Fund balance available at April 30:	145,800
Add: Estimated May and June cash receipts from Schedule #1	50,350
Less: Estimated May and June obligations from Schedule #2	<u>(114,875)</u>
Preliminary fund balance available at June 30:	<u>81,275</u>
Add (less) estimated adjustments (4)	
(Increase) decrease in encumbrances	3,200
(Increase) decrease in deferred revenues from cash receipts	<u>(2,000)</u>
Total estimated adjustments	<u>1,200</u>
Estimated fund balance available for appropriation at June 30:	82,475
Less: any other reserved funds	0
minimum reserve of 8% of expenditures for tax-levying units (5)	<u>(48,980)</u>
Estimated maximum fund balance available at June 30, adjusted for 8% minimum reserve.	<u>\$ 33,495</u>

Footnotes:

- (1) Includes all liabilities recorded in the General Fund except deferred revenue. Liabilities include such items as accounts payable, due to other funds, accrued interest, and any other items payable out of the General Fund.

- (2) The amount of encumbrances outstanding at April 30.
- (3) Deferred revenue from cash receipts are deferred revenues resulting from transactions for which the unit has received cash. These normally consist of prepaid taxes, grant proceeds received before they have been earned, and other prepaid liabilities.
- (4) Adjustments will result from expected changes in the balance sheet accounts, in addition to changes made as a result of cash receipts or the unit's obligations. Increase/decreases in deferred revenues and the reserve for encumbrances need to be included here. Other changes requiring adjustment could include reductions in liabilities brought about by something other than payment of the liability, such as forgiveness of an interfund payable.
- (5) This assumes the estimated total expenditures for the year are \$612,250. Deducting 8% of this amount from total fund balance available of \$82,475 creates a "floor" that fund balance available should not drop below. While this is not required, this is a very conservative budgeting technique.

*Note: Fund balance available for appropriation at June 30<sup>th</sup> could also be estimated in a simpler, less precise manner by using April 30<sup>th</sup> expenditures and annualizing them to June 30<sup>th</sup>. Multiply an estimated fund balance percentage (based on historical experience) to the total of the annualized expenditures for an estimate of available fund balance at June 30<sup>th</sup>. This amount should be reviewed for reasonableness. Units with significant variances in fund balance available should be cautious when using this method. See the example below.*

**ESTIMATION OF FUND BALANCE AVAILABLE FOR APPROPRIATION  
SAMPLE CALCULATION  
For the Fiscal Year Ending June 30, 20X1**

**SCHEDULE #1  
Estimating May and June Cash Receipts**

Estimating Intergovernmental Receipts for May and June:

1% Local Option Sales Tax	\$11,000
1/2% Local Option Sales Tax	5,500
Additional 1/2% Local Option Sales Tax	5,500
Beer and Wine Tax	3,200
ABC Revenue	1,350
Utility Franchise Tax	11,150
Other Intergovernmental Receipts	--0
Total estimated intergovernmental receipts for May and June	<u>37,700</u>

Estimated Other Receipts:

Charges for services	2,400
Licenses and permits	250
Prior years' property taxes	175
Penalties and interest	125
Current year's property taxes	0
Prepaid taxes not yet due	2,000
Investment earnings	5,750
Payment received on accounts receivable	1,950
Other miscellaneous receipts	--0

Total estimated other receipts 12,650

Total estimated cash receipts for May and June \$50,350

**SCHEDULE #2**  
**Estimating May and June Cash Obligations**

Estimated obligations:

Salaries and related expenditures (1)	\$ 80,000
Operating costs (2)	20,000
Capital outlay	2,000
Transfers to other funds	0
Lease and debt service obligations	12,875
Contributions to other organizations and governments	___0
Total estimated obligations in May and June (3)	<u>\$114,875</u>

Footnotes:

- (1) These obligations can be estimated using 1/5 of the total year to date salaries obligation at April 30 or by multiplying the total salaries obligation for the month of April by 2. Adjustments should be made for known changes in these numbers, such as new positions, and vacancies filled or created.
- (2) These obligations can be estimated by using 1/5 of the total year to date of all operations costs at April 30 or by multiplying the total of all operations costs for the month of April by 2. Adjustments should be made for known changes in these obligations, such as price increases in frequently used items.
- (3) The estimated amounts should be added to the known year-to-date expenditures for a total projected expenditures for the year. This should be multiplied by the unit's historic fund balance available percentage. Information about a unit's fund balance percentage is available at the [County and Municipal Financial Information](#) web page of the State Treasurer's web site. Units which have significant fluctuations in fund balance levels should be very cautious about using this approach.

**APPENDIX I - SAMPLE INTERIM BUDGET ORDINANCE**

(County)

BE IT ORDAINED by the Board of Commissioners of Carolina County, North Carolina, that pursuant to G.S. 159-16:

Section 1: The following amounts are hereby appropriated in the General Fund for the operation of the county government and its activities for the month of July, 20X1 in accordance with the chart of accounts heretofore established for this County:

General government	\$ 523,242
Public safety	590,868
Environmental protection	84,822
Transportation	10,305
Economic and physical development	109,749
Human services	1,981,413
Cultural and recreational	192,688
Education	<u>3,451,501</u>
Total appropriations	<u>\$ 6,944,588</u>

Section 2. The following amounts are hereby appropriated in the Fire District Fund for the operation of fire protection services for the month of July, 20X1 in accordance with the chart of accounts heretofore established for this County:

Public safety - Fire District 1	\$ 817
Public safety - Fire District 2	<u>917</u>
Total appropriations	<u>\$ 1,734</u>

Section 3. The following amounts are hereby appropriated in the Revaluation Fund for the revaluation of property in Carolina County during the month of July, 20X1 in accordance with the chart of accounts heretofore established for this County:

General government	<u>\$ 48,792</u>
--------------------	------------------

Section 4. The following amounts are hereby appropriated in the Landfill Fund for the operation of the county landfill for the month of July, 20X1 in accordance with the chart of accounts heretofore established for this County:

Landfill administration	\$ 2,083
Landfill operations	<u>12,333</u>
Total appropriations	<u>\$ 14,416</u>

Section 5. The following amounts are hereby appropriated in the Water and Sewer Fund for the operation of the County's water and sewer system for the month of July, 20X1 in accordance with the chart of accounts heretofore established for this County:

Water and sewer administration	\$ 7,526
Finance	2,683
Water treatment plant	6,240
Raw water pump station	2,292
Water distribution	12,979
Sewage collection system	7,540
Primary waste treatment	3,604
Secondary waste treatment	<u>467</u>
Total appropriations	<u>\$ 43,331</u>

Section 6. The Budget Officer is hereby authorized to transfer appropriations as contained herein under the following conditions:

- a. He/she may transfer amounts between line item appropriations within a department without limitation and without a report being required. These changes should not result in increases in recurring obligations such as salaries.
- b. He/she may transfer amounts up to \$1,000 between departments within the same fund. He/she must make an official report on such transfers at the next regular meeting of the Board of Commissioners.

Section 7. The Budget Officer may make cash advances between funds for periods not to exceed 60 days with the approval of the Board of Commissioners.

Section 8. Copies of this Interim Budget Ordinance shall be furnished to the Clerk to the Board of Commissioners and to the Budget Officer and Finance Officer to be kept on file by them for their direction in the disbursement of funds.

Adopted this \_\_\_\_\_ day of June, 20X1

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**Assumptions and Notes to Preparer**

1. This interim budget ordinance has been derived from the sample annual budget ordinance found in Appendix A of this policy. The amounts in the sample interim ordinance were obtained by excluding transfers and capital outlay appropriations and dividing the remaining amounts by 12. It is assumed that the interim budget will be used for one month (July) and that the amounts listed represent appropriations for salaries and wages and the usual ordinary operating expenses as required by G.S. 159-16.
2. It is assumed that no debt service payments will be made in July while the interim budget ordinance is in effect. If debt service payments must be made before an annual budget ordinance is adopted, the entire amount of the payment should be budgeted in the interim budget. Of course, the payment should be made in a timely manner.

3. No amounts were budgeted for capital outlay. G.S. 159-16 states that the interim budget is to be used for appropriations to pay salaries and wages, debt service, and the usual ordinary expenses. Major capital projects would normally be budgeted in a project ordinance; therefore, budgetary authority to make payments for these projects would already be established. Although an argument can be made that small capital outlays that are routinely budgeted in the annual ordinance are an ordinary expense, we, the staff of the LGC, have not shown any appropriations for capital outlays because we do not believe that the statute's intent was to include them in the interim ordinance.
4. No amounts are shown for revenues or appropriations of fund balance. Although the title of G.S. 159-16 mentions "budget", the body of this law addresses only appropriations. Therefore, no amounts for revenues or appropriated fund balance are used to offset appropriations. However, it may be advisable to identify financial resources that could be used to fund the interim appropriations.
5. Although the sample interim ordinance assumes that appropriations will be maintained at the same level in the interim budget as in the prior fiscal year, several adjustments may be necessary. It is possible that some usual operating expenses, such as utilities, may have increased. If so, appropriations should be increased accordingly to reflect the increased costs. Amounts appropriated in the interim budget ordinance would be one month's expenditures at the same spending level as in the prior fiscal year; therefore, some adjustments of budgeted amounts to reflect the prior year's actual expenditures would be necessary. Reasons for these adjustments could include mid-year pay increases and employee turnover (with new employees replacing previous employees at different salary amounts, at various times during the year).
6. G.S. 159-16 is intended to provide budgetary authority to continue current operations at the same level. It should not be used to add new programs or provide for salary and wage increases. The intent of the statute is for an interim budget ordinance to be used for the shortest possible period of time. Salary increases and program expansions should be handled in the annual budget ordinance, not in the interim ordinance. Except in extraordinary circumstances, use of an interim ordinance for much more than one month is not consistent with the intent of the statute to provide a short-term budgetary mechanism.
7. Appropriations are shown for all annually budgeted funds. Although annual ordinances could be adopted for some funds before July 1, such as the water and sewer or landfill funds, the staff of the LGC recommends all annually budgeted funds be included in the interim budget and then in the annual budget ordinance when it is adopted. Treating all funds in the same manner minimizes possible confusion.
8. Special arrangements may be needed for some funds (fire district fund) in which most revenues are related to property taxes, which are not legally due before they are levied. The governing board may need to approve temporary interfund loans to make contractual payments to not-for-profit volunteer fire departments until property taxes can be levied.
9. Adoption of an interim budget ordinance requires that the governing board adopt an annual ordinance that includes property taxes or other revenues in amounts sufficient to

- pay for expenditures, encumbrances, and other obligations incurred under appropriations established in the interim budget ordinance.
10. The revaluation fund includes interim appropriations in amounts sufficient to fund required activities in the year of revaluation. If revaluation will not take place during the current year or if payments during the interim period are not required, it is possible that no funds will be needed. Consequently, no interim appropriations would be made.
  11. Although it has not been included in this sample, a narrative explaining the purpose and statutory authority for the interim budget ordinance may be useful. It would be included in the opening paragraph preceding Section 1.
  12. No interfund transfers have been shown. Although interfund loans may be required, transfers should be budgeted only in the annual budget ordinance.
  13. Obviously, all costs incurred under the interim ordinance must be paid in a timely manner with appropriations of available fund balance, interfund loans, or the regular revenues received during the period (except property taxes and other revenues, which are not due until they have been levied). Although these funding sources will not be specifically shown in the interim budget ordinance, the funding sources selected should be approved by the governing board. The transactions occurring during the interim period must be charged against the proper appropriation in the annual budget ordinance when it is adopted.
  14. The budget officer has been given some limited authority to modify appropriations without the prior approval of the governing board. This is discussed in Section 6 of the sample ordinance.

## **APPENDIX J - SAMPLE CAPITAL IMPROVEMENT PROGRAM PAPERWORK**

### **City of Dogwood**

#### **INTRODUCTION**

The Capital Improvement Program (CIP) is a six-year plan for the financing of major projects that represent significant contributions to the City's overall inventory of physical assets. As a long-range plan, the CIP reflects the City's policy regarding long-range physical and economic development. By providing a planned schedule of public improvements, the CIP outlines present and future public needs and priorities. The CIP provides public and private sector decision-makers with valuable information on which to base investment decisions. It also represents:

1. information for individual taxpayers, neighborhood councils, and other civic groups interested in the City's growth and development;
2. a statement of intention for federal and state agencies who provide grants-in-aid to the City; and
3. a source of information for potential developers

The CIP is also an integral part of the City's budgeting process, with the first year of the plan representing the actual budget for capital projects. The CIP approval by the governing board outlines the City's official commitment to the first year capital projects and indicates conditional approval for those projects listed in the five future planning years.

Capital project planning is an ongoing process. Each year, the CIP is updated, with the deletion of the "prior year" and the addition of a planning year, in order to maintain the full six-year period of the program. Projects that have been tentatively scheduled in previous CIPs are reassessed, along with new, proposed projects. A test of the effectiveness of the capital planning process is the orderly manner in which projects are planned for, scheduled, and finally budgeted, year-by-year.

Advance planning of capital improvements may benefit the City in a number of ways, such as:

1. Elimination of "crash programs" to finance the construction of city facilities.
2. Capital facilities are replaced in an orderly manner.
3. Budgeting takes place within a system that assures that capital projects will be built according to a predetermined priority system while planning in advance for the revenue needed to finance and complete these capital projects.
4. Advance planning helps to ensure that projects are well thought out before beginning construction.
5. Major purchases may be scheduled to benefit from favorable market conditions.
6. Coordination with the operating budget is maximized. An important aspect of capital improvement planning is the effect capital expenditures have upon the annual operating cost of the city. When a new facility is established, it must be maintained

and staffed, and obligations, which begin when it is made operational, will become continuous.

7. The process provides the ability to coordinate projects among different departments, for example, a unit could time the installation/replacement of water and sewer lines under a street to coincide with the major repair work or repaving of that street.
8. An overview of current and future capital requests is provided, which enables an assessment of all capital expenditures and establishes priorities in a comprehensive framework rather than through many piecemeal decisions.

#### **Capital Improvement Program Preparation Schedule**

##### **20X1**

November 27                      Send out CIP Instruction Manual and Forms

December 27                     Deadline for all capital improvement projects requests submitted to the Budget and Evaluation Office

##### **20X2**

January 27                        Planning and Budget and Evaluation staffs complete project reviews

#### **DEFINITION OF TERMS**

**Capital Improvement Program** is a long-range plan of proposed capital improvement projects, which includes estimated project costs and funding sources, that a local government expects to carry out over a five-year period. The program is usually updated annually for the purpose of reassessing local capital needs, as well as for the preparation of the annual Capital Improvement Budget.

**Capital Improvement Project** is a major nonrecurring capital expenditure for the:

1. Construction, purchases or major renovation of buildings, utility systems, streets or other physical structures;
2. Purchase of land; and
3. Major landscaping projects.

Generally, a Capital Improvement Project will have an expected useful life greater than 10 years and an estimated total cost of \$25,000 or more. Other capital improvement projects costing less than \$25,000 should be included as capital outlay in your budget requests.

**Capital Improvement Budget** is a list of capital improvement projects, together with the cost amounts and sources of funds for the coming fiscal year. This is also the first year of the Capital Improvement Program.

**INSTRUCTIONS FOR COMPLETING FORMS**

A **Capital Project Request Form** and a **Project Financial Form** must be filled out for every project that you plan to undertake within the next six years. A **Project Ranking Form** must also be included to complete the paperwork. The forms are available on diskette in Microsoft Word format and may be obtained from the Budget Office. Any problems or questions pertaining to the completion of the forms should be directed to the Budget Office. Completing the forms in Microsoft Word is optional. Requests may also be typed on printed copies of the forms. Whether using the word processing documents provided or typing on the forms, a **hard (printed) copy** of each form must be returned to the Budget Office. Please do not send diskettes.

**CAPITAL PROJECT REQUEST FORM**

**Requesting Agency:** *Identify what department, division, or office is submitting the capital project request.*

**Project Title:** *Each project must have a title (i.e., name of street, building, park,, etc.)*

**Project Number:** *For previously authorized projects, use the project number that has already been assigned by the Finance Department. New projects will not yet have a project number.*

**Project Status:** *Indicate if the project submitted is a new project, a previously authorized project, or a previously request project that has not been approved.*

**Project Description:** *Give a full description of the project. Information should include the location, square footage, land or acreage needed for the facility or structure, as well as the useful life of the project. If possible, please include a map.*

**Project Justification:** *Describe in detail why the project is needed. The following questions may be used as a guide for completing this section.*

- a. What present or anticipated problem will this project alleviate?
- b. To what extent will this project alleviate the present or anticipated problem or service deficiency?
- c. How will this project improve services to citizens and other service clients?
- d. Is the project needed to bring the city into compliance with any laws or regulations?
- e. Will this project increase efficiency in providing a public service?
- f. Will this project reduce your annual operating costs in some manner?
- g. Is public health or safety a critical factor with regard to this project?
- h. How would delays in starting the project affect city services?

In discussing the justification of a particular project, please be specific with detailed facts and figures. Also, indicate the source of your data.

## GENERAL PROJECT INFORMATION

After the project justification section, six questions are listed about the project. Each question must be answered in order to ensure that the important factors to be considered are addressed in any recommended capital project.

1. How does this project fit plans for the future and the objectives of the department?

*Indicate the impact this project will have on your program's service level.*

2. Who will it serve?

*Identify the segment and size of the population the project is expected to serve.*

3. What is the project priority (compared to other requests)?

*Prioritize the project by assigning either high, medium, or low priority.*

4. What is the relationship to other projects (either ongoing or requested)?

*Identify whether or not the success of this project is related to another project. Also state whether or not this project is required to complete or make fully usable a major public improvement.*

5. What are the project alternatives?

*List alternatives to this project you considered in developing this recommendation. Explain why you rejected the alternatives listed.*

6. What are the consequences, if not approved?

*Explain in detail the consequences if the project is not approved.*

## Cost Analysis

The cost analysis section enables the department head and the budget staff to evaluate the costs associated with each project. The information requested addresses the following:

- a. Cost estimates prepared by:

*Indicate who prepared the cost estimate.*

- b. What is the possibility of cost escalation over time?

*Indicate to what extent the budget staff can expect the project's cost to increase if the project is delayed or extended over a longer time span than the request schedules.*

- c. How does the cost estimate for the requested project compare to other similar facilities or projects that have been authorized recently?

*When applicable, compare the cost estimate of the project with the actual cost of a similar project that has been completed in the past three years.*

- d. What are the cost options for alternatives?

*Give a cost estimate for each of the project alternatives listed under the "General Project Information" section of this form.*

### **Financing Analysis**

The Financing Analysis section provides information on the types of funding available for financing a particular project. Funding sources may be from the federal, state, and local levels of government. Where applicable, private donations may also be considered. If you are considering financing a project with General Fund money, please keep in mind the General Fund will not be sufficient to cover the costs of all the projects that are submitted. Also keep in mind that two-thirds bonds are only available every other budget year (e.g. 1999-2000, 2001-02, 2003-04).

- a. What are the proposed financing sources?

*See the discussion in the paragraph above.*

- b. Is the funding source secure?

*Discuss the reliability of the funding source recommended for the project anticipated.*

### **Time Frame Analysis**

This section requests information on all phases of a project that will be undertaken in the next five years. In addition, information should be provided on the relationship between this capital project and other projects in the requesting department and other departments.

- a. Project schedule.

*Estimate the starting and completion dates for the project.*

- b. Are there any plans or other requirements that must be completed before a project can be started?

*Indicate whether preliminary work should or must be done prior to the start up date given (i.e., conducting a feasibility study). If preliminary plans are needed, explain why.*

- c. If not a new project, what is the current status of the project?

*This question pertains to previously authorized projects that are currently underway. Provide a statement as to the status of the project, which includes one or more of the following categories:*

- ❖ *Initial project request*
- ❖ *Feasibility study complete*
- ❖ *Architectural plan/specifications complete*
- ❖ *Land/right of way acquisition, percent acquired*
- ❖ *Construction contracts, percent let*
- ❖ *Improvements/development complete*

d. *How does timing affect other projects?*

*Explain how the schedule for this project may be related to the timing of other related projects.*

**PROJECT FINANCIAL FORM**

The Project Financial Form is divided into four sections: the budget appropriation plan; the financing plan; the spend plan; and the operating impact statement. Listed below is a detailed set of instructions for completing these four sections of the Project Financial Form.

**Budget Appropriation Plan**

The budget appropriation plan illustrates the amount of money to be appropriated in each expenditure category and the timing of the appropriation throughout the six-year planning period. There are six major categories of expense:

Planning/Design	Land acquisition/R.O.W	Contingency
Construction	Equipment/Furnishings	Other

If an expense is listed under the "Other" category, please specify what the other expenses are in the "NOTES:" section at the bottom of the form.

Please keep in mind that the appropriate plan section calls for you to establish an authorization schedule and not a "spend plan". In most cases, if a project is scheduled to begin in FY 99-00, then the total budget should be entered on the form for that year. The fact that some of the expenses may be incurred in subsequent fiscal years is not relevant to when funds should be appropriated. The Spend Plan section will provide an opportunity to show when expenses will actually be incurred. For some projects, budget appropriations may occur over a period of time based on the ongoing nature of the project or the availability of revenues for the project. Examples of these types of projects include: railroad crossing improvements, intersection signalization projects, and sidewalk construction projects, all of which are usually funded every two years with two-thirds bonds.

For ongoing projects that have an existing expenditure history, fill out the first two columns as follows: Under the Prior Year column, include the appropriations for each category based upon actual appropriations from the beginning of the project through June 30, 1999. Do not leave this column blank unless no funds have been appropriated for the project in the past. Under the Current Year column, list actual appropriations for FY 99-00.

Whether funds are appropriated in FY 00-01 or over several years, cost estimates should include adjustments for any increases in the prices of goods and services that are expected between now and the year in which the funds will be expended. The inclusion of inflation in the cost estimates will help ensure that adequate funding is available for every phase of the project.

If the project will be completed after June 30, 2005, please estimate future budget appropriations for each element of the project until its completion and show this information in the "Notes" section on the form.

### **Financing Plan**

The financing plan outlines the resource authorizations necessary to fully finance the appropriation plan. Total resource authorizations must match total projected budget appropriations in each year where budget appropriations occur. For some projects, the source of funding may not be clear. In these cases, choose the source you think is most logical and the budget staff will make the final recommendation for a financing alternative that will go to the City Manager for his review.

### **Spend Plan**

The budget spend plan section estimates the actual capital expenditures that will be disbursed for each year of the plan. Estimates on actual capital spending are used for cash management and compliance with Federal IRS regulations on arbitrage. Do not leave this section blank.

### **Operating Impact Statement**

The operating impact statement provides information relating to the project's influence on the operating budget in terms of both expenses and program generated revenues. This section outlines exactly what types of recurring expenses will be incurred when the project becomes operational. Please use the following guidelines in preparing this section:

#### **Projected Expenses**

- a. List under the appropriation categories -- Personnel, Operating, and Capital Outlay-- the estimated future operating costs by fiscal year for the project. In projecting personnel and operating expenses beyond 2000-01, please use a 4% inflation factor for each of the next four fiscal years. Under the Capital Outlay Category, please do not duplicate the figures you show under the Equipment and Furnishings Category of the capital project. The capital outlay figure shown should only include those items that are not directly associated with the capital project. For example, if you move into a new building, which will require the hiring of a receptionist/typist, you would want to include a computer or typewriter for this position under capital outlay.

#### **Projected Revenues**

- b. The Project Generated Revenues category includes additional revenues a project might generate for the City. For example, the City may decide to extend water and sewer lines to an area not previously served by the City. If, by chance, the increased income exceeds the additional operating expenses, the extension would produce new net operating income for the City. This could also be the case for certain kinds of recreational and parking facilities. Therefore, please indicate, by fiscal year, additional revenues that will be generated as a result of this project. Finally, subtract these revenues from the operating expenses in order to determine the Net Operating Effect on the project.

**PROJECT RANKING FORM**

Use this form to rank all projects requested by your department in the order of priority for available funding.

**CAPITAL PROJECT REQUEST FORM**

**Requesting Agency:**

**Project Title:**

**Project Number:** (If previously authorized)

**Project Status:**

New \_\_\_\_\_ In Previous CIP \_\_\_\_\_

Previously requested but not approved \_\_\_\_\_

**Project Description:** (include location and maps, if applicable)

**Project Justification:**

**General Information:**

How does the project fit plans for the future/objectives of the department?

Who will it serve?

What is the project priority (compared to other requests)?

What is the relationship to other projects (either ongoing or requested)?

What are project alternatives?

What are the consequences if not approved?

**Cost Analysis:**

Cost estimates prepared by:

What is the possibility of cost escalation over time?

How does this cost estimate compare to other similar facilities or projects that have been authorized recently?

Are all costs included? (Yes or No)

- ◆ Land acquisition \_\_\_\_\_
- ◆ Engineering fees \_\_\_\_\_
- ◆ Other miscellaneous professional fees \_\_\_\_\_
- ◆ Appraisals \_\_\_\_\_
- ◆ Soil testing \_\_\_\_\_
- ◆ What about contingency? \_\_\_\_\_

What are cost options for alternatives?

**Financing Analysis:**

What are the proposed financing sources?

Are these funding sources secure? Or are they subject to an approval process, adjustment or cancellation?

**Time Frame Analysis:**

Project Schedule

Start up date:

Completion Date:

Are there any plans or other requirements that must be completed before the project can be started?

If not a new project, what is the current status of the project?

How does timing affect other projects?

**Project Financial Form**

Requesting Department:

Project Description/Identifying #:

Budget Appropriation Plan

Expenditure	Prior Years	Current Year 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04, to completion
Planning/Design						
Construction						
Land Acquisition/ R.O.W.						
Equipment & Furnishings						
Contingency						
Other (See Notes)						
Totals						

Financing Plan

Revenues	Prior Years	Current Year 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04, to completion
Federal Grants						
State Grants						
G.O. Debt						
Other Debt						
Other Funds						
Other (See Notes)						
Totals						

Spend Plan

	Prior Years	Current Year 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04, to completion
Cash Disbursements						

Operating Impact Statement

Projected Expenses *(additional operational expenses expected as a result of this project becoming operational.)*

Expenses once project is complete	Current Year 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04, to completion
Salaries and related expenses					
Utilities					
Repair & Maintenance					
Other Operating Costs					
Capital Outlay					
Totals					

Projected Revenues *(additional operational revenues expected as a result of this project becoming operational.)*

Revenues once project is completed	Current Year 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04, to completion
User Fees					
Federal Grants					
State Grants					
Local Contributions					
Other					
Totals					

Notes:

**PROJECT RANKING FORM**

List each of the projects requested by your department, including those in the current CIP, in the order of priority for funding.

Project Name

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

11.

12.

13.

14.

15.