

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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Module 2: Budgets



Budget Overview

- The budget is the most important fiscal document a governing board produces.
- Developing a budget is a fundamental responsibility of a governing board.
- The budget reflects the priorities of the governing board.

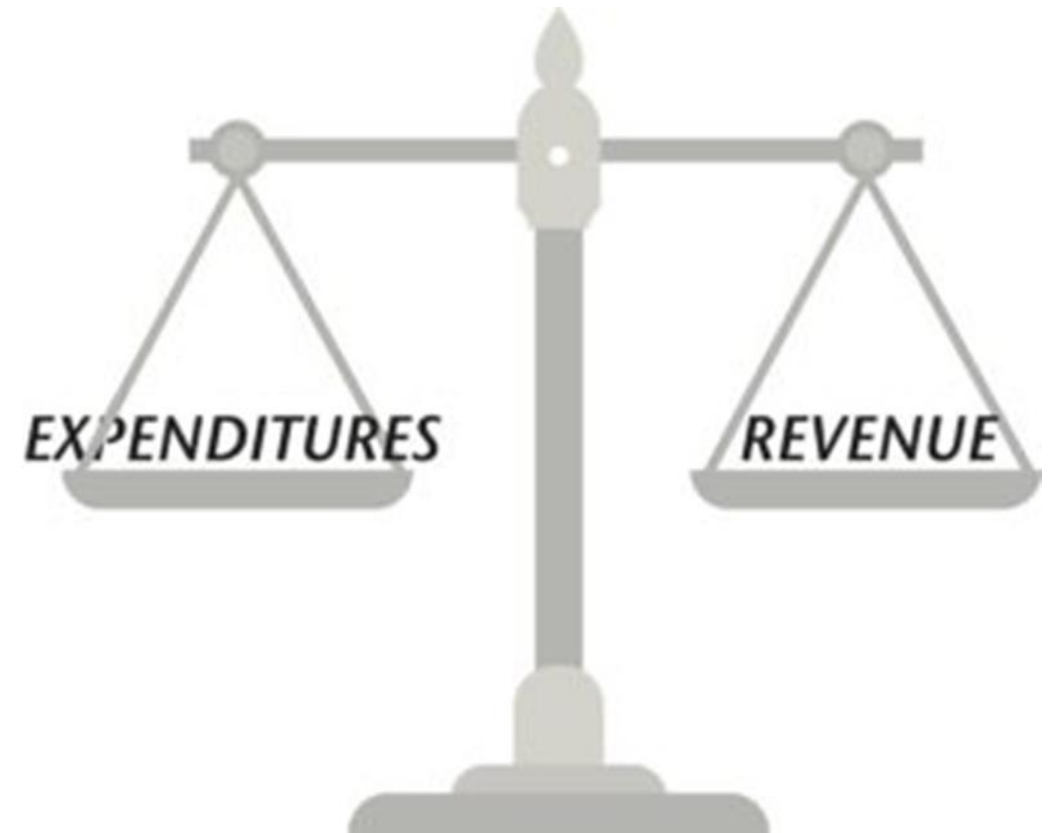
The Local Government Budget and Fiscal Control Act (LGBFCA) provides requirements for the development and adoption of a budget, including key dates.^[1]

^[1][G.S. 159, Article 3. The Local Government Budget and Fiscal Control Act.](#)



Budget Requirements

- The budget for a local government must cover a period from July 1 to June 30.^[2]
 - This is the unit's fiscal year.
- The budget must be balanced.^[3]
 - Recurring revenues should equal recurring expenditures.
- Fund balance should be reserved for special or unexpected circumstances.
 - It should not be used to fund recurring expenditures such as payroll or utilities.



^[2][G.S. 159-8\(b\)](#) ^[3][G.S. 159-8\(a\)](#)



Budget Requirements

With limited exceptions, local governments may not spend any money that is not accounted for in the annual budget.^[4]



^[4][G.S. 159-8\(a\)](#)



Budget Officer

- **Every local government must have a budget officer.**^[5]
- For units operating under a manager form of government, **the manager is the budget officer.**
 - This includes all 100 North Carolina counties.
- Municipalities **not** using the council-manager form of government may impose the duty of budget officer on **any officer or employee**, including the mayor.

The budget officer has two main duties:

1. Prepare the annual budget
2. Execute the annual budget

^[5][G.S. 159-9](#)



Governing Board Responsibilities

The governing board plays a key role in the budget preparation process by:

- Establishing a solid timeline that allows the unit to consistently meet deadlines laid out in the LGBFCA.
- Providing guidance, priorities, and goals to the budget officer.
 - For example, a board may wish to allocate funds for staff raises, implement a new tax rate, etc.





Budget Ordinance

The budget ordinance is the legal document that:[⁶]

1. Estimates operating revenues.
2. Establishes authority to spend public monies via appropriations.
3. Levies ad valorem taxes.

A budget ordinance should also include provisions for staff such as authority to transfer appropriations within a fund up to a certain limit.

NC LOCAL GOVERNMENT FINANCE POLICY MANUAL

Town of WolfPack, NC Annual Budget Ordinance

AN ORDINANCE ADOPTING THE BUDGET FOR THE TOWN OF WOLFPACK, NC FOR THE FISCAL YEAR 20XX-20XX

SECTION 1. ESTIMATED REVENUES

The following revenues are hereby estimated to be available for the fiscal year beginning July 1, 20XX, and ending June 30, 20XX:

General Fund:

| | |
|--|-------------|
| Property Taxes: | \$1,750,000 |
| Sales Taxes: | \$900,000 |
| Utility Franchise Taxes: | \$300,000 |
| Powell Bill (State Street Aid): | \$200,000 |
| Building Permits & Fees: | \$150,000 |
| Other Revenues (fines, licenses, interest earnings, etc.): | \$50,000 |
| Appropriated Fund Balance: | \$150,000 |
| Total General Fund Revenues: | \$3,500,000 |

Water Fund:

| | |
|----------------------------|-------------|
| Water Service Charges: | \$1,500,000 |
| Tap Fees: | \$200,000 |
| Legislative Appropriation: | \$200,000 |
| Total Water Fund Revenues: | \$1,900,000 |

Special Revenue Fund:

| | |
|--------------------------------------|-----------|
| Grants and Restricted Revenues: | \$100,000 |
| Total Special Revenue Fund Revenues: | \$100,000 |

[⁶][G.S. 159-13\(a\)](#)



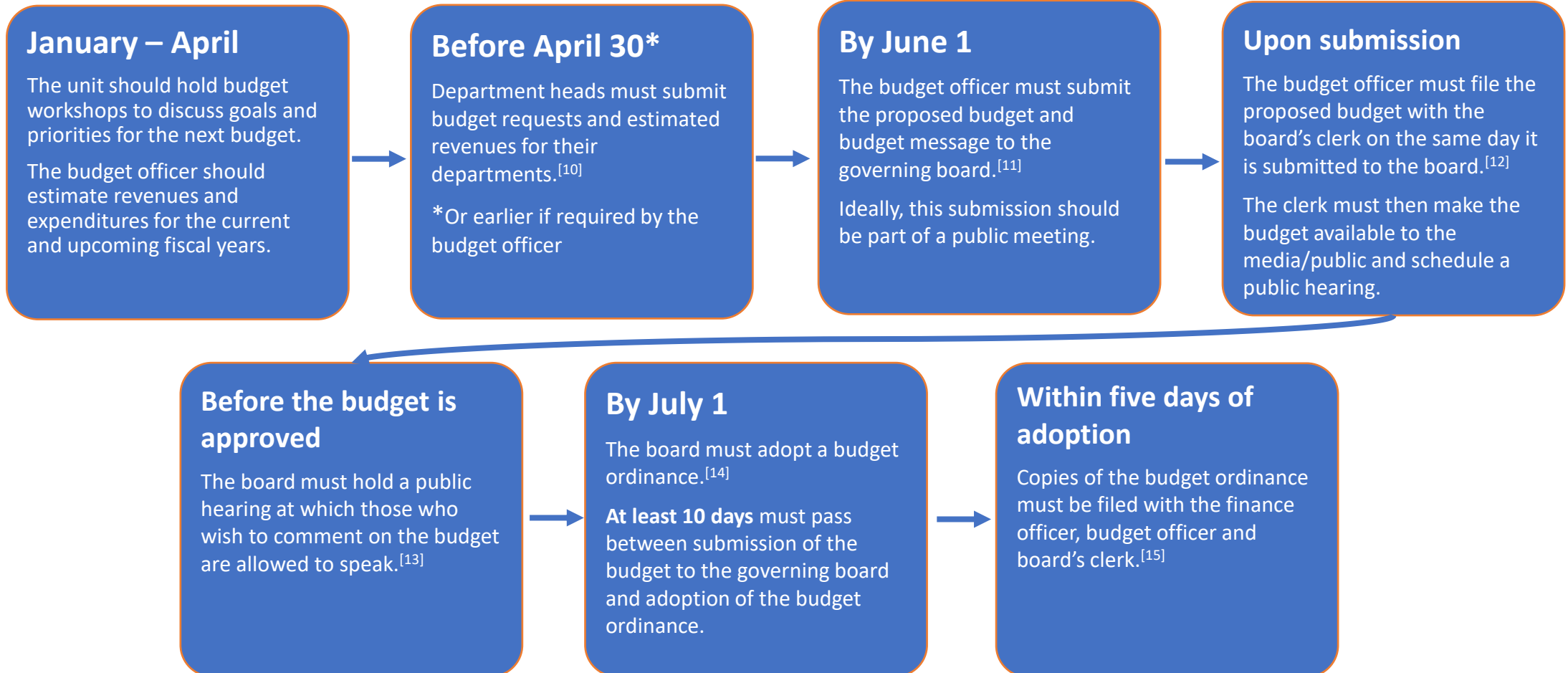
Budget Ordinance

- The budget ordinance must levy taxes “at rates that will produce the revenue necessary to balance appropriations and revenues.”^[7]
- Therefore, the budget ordinance should include:
 1. Tax rate
 2. Valuation of taxable property
 3. Expected collection percentage
- Units may not assume a higher tax collection percentage than what was actually realized during the last fiscal year.^[8]
- **“In other words, the budget may not be overly optimistic about how much of next year’s tax levy will result in actual dollars in the bank.”^[9]**

^[7][G.S. 159-13\(c\)](#) ^[8][G.S. 159-13\(b\)\(6\)](#) ^[9][Chris McLaughlin, “Budgets and the Tax Collection Percentage”](#)



Budget Adoption Timeline



^[10] [G.S. 159-10](#) ^[11] [G.S. 159-11\(b\)](#) ^[12] [G.S. 159-12\(a\)](#) ^[13] [G.S. 159-12\(b\)](#) ^[14] [G.S. 159-13](#) ^[15] [G.S. 159-13\(d\)](#)



Interim Budget

- If the budget ordinance cannot be adopted by July 1, **an interim budget ordinance must be adopted.**^[16]
- Disbursements cannot be made after June 30 without an annual budget ordinance or interim budget ordinance.
- Property taxes are not levied in an interim budget ordinance.
- Interim budgets should be used **rarely** and for the shortest possible time.
- When the final budget is adopted, the expenditures incurred under the interim budget must be included in the final budget.

^[16][G.S. 159-16](#)



Budget Amendments

- The budget can be amended by the governing board at any time, as long as it remains balanced and continues to meet all other statutory requirements.^[17]
- A budget amendment is adopted at a regular meeting and does not require a public hearing.
- Budget amendments must be made **prior to** obligating funds in excess of budgeted appropriations.

An amendment to the budget ordinance may not alter the tax levy **unless**:

1. The board is directed to do so by a court or authorized state agency.

OR

2. Revenues received are substantially more or less than the amount estimated in budget. (In this case, the amendment may only be adopted before **January 1.**)

^[17][G.S. 159-15](#)



Fund Balance Available

- **Fund Balance Available** or **FBA** is a governmental accounting term used only in North Carolina.
 - It is the portion of a unit's total fund balance that can legally be used, if needed, to balance the annual budget.
 - FBA can be calculated from a unit's annual audit using [this spreadsheet provided by LGC staff](#).
- Governments should develop a fund balance policy and adhere to it when taking budget actions.
 - [Sample fund balance policies](#) are available from NC Finance Connect.
 - Following a well-established fund balance policy can help units ensure that sufficient funds are available for special or unexpected circumstances.



FBA Targets

- While there is no mandated minimum fund balance for units, the LGC uses established FBA thresholds as a measure of a unit's financial health.
- To learn more about the LGC's FBA recommendations and determine a target that is appropriate for your unit, start by reading [this blog post](#).
- Annual reports on Management of Cash and Taxes and Fund Balance Available are available on the [LGC website](#).





Creating Capital Reserves

To save money for capital projects, such as new buildings or infrastructure improvements, governing boards can and should establish a **capital reserve fund**.



The resolution or ordinance establishing the capital reserve fund must include:^[18]

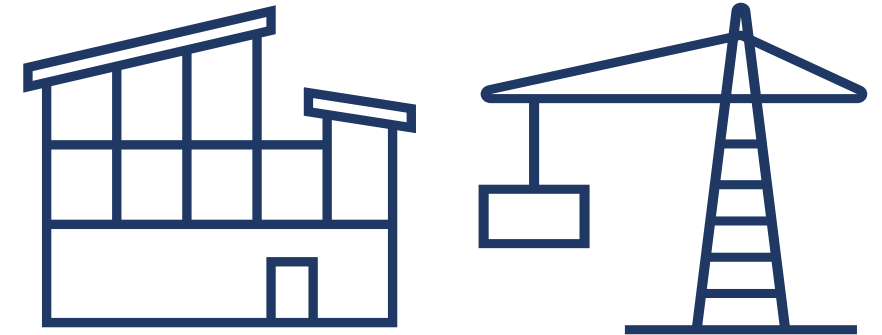
1. The purposes for which the fund is created.
2. The approximate period of time during which the moneys are to be accumulated for each purpose.
3. The approximate amounts to be accumulated for each purpose.
4. The sources from which moneys for each purpose will be derived.

^[18][G.S. 159-18](#)



Using Capital Reserves

- To make a withdrawal from a capital reserve fund, the governing board must pass a separate resolution or ordinance authorizing the specific withdrawal.^[19]
- Withdrawals may only be authorized for purposes specified in the original resolution/ordinance establishing the fund **or** a purpose added in a subsequent amendment.



^[19][G.S. 159-22](#)



Other Considerations

Before transferring excess revenues from an enterprise fund to another fund, governing boards should:

- Understand the statutory limitations^[20] and potential consequences of such transfers.
- Carefully consider whether the specific transfer is in the best interest of the unit.
- Read [this blog post](#) for an in-depth discussion of this topic.



^[20] [G.S. 159-13\(b\)\(14\)](#)



Other Considerations

If an operating expense serves/benefits multiple funds, it may be posted **across** those funds, using a reasonable allocation basis such as square footage.

For Example:

If the offices for a utility enterprise take up 20% of the square footage in city hall, then 20% of the upkeep expenses for city hall may be allocated to the enterprise fund.



Other Considerations

- When developing a budget, governing boards should always try to think **long-term**.
- Current budgeting priorities may impact the government for years to come.





Resources

- [Introduction to Local Government Budgeting \(UNC School of Government\)](#)
- [N.C. Local Government Finance Policy Manual, Chapter 2: Budgeting \(UNC School of Government\)](#)
- [N.C. Local Government Finance Policy Manual, Chapter 3: Fund Balance \(UNC School of Government\)](#)
- [Sample Budget Ordinances \(UNC School of Government\)](#)
- [Sample Adopted Budget \(UNC School of Government\)](#)
- [Sample Budget Amendment](#)
- [Fund Balance Available calculation](#)
- [Sample Fund Balance Policies \(UNC School of Government\)](#)



Resources



- UNC School of Government
 - NC Finance Connect
 - Finance Calendar of Duties
 - NC Local Government Finance 101
 - NC League of Municipalities
 - North Carolina Association of County Commissioners
 - Government Finance Officers Association - Best Practices & Resources
- **Contact LGC Staff:** (919) 814-4300
 - **Visit the LGC Website**
 - **Sign up for the LGC Staff Blog**
 - **Stay up to date with SLGFD Memos**



Quiz: Module 2

1. What is the most important fiscal document a governing board produces?
2. Who is responsible for preparing and executing the annual budget?
3. By what date must the budget ordinance be adopted by the governing board?

