Department of State Treasurer

Policy Manual for Local Governments

Section 10: Budgeting

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Executive Summary

Development of a well thought-out and timely budget is a fundamental responsibility of governing bodies and a vital function of the finance officers in North Carolina. To manage in unpredictable and difficult economic times, it is essential that all local governments have a carefully considered budget in place that levies taxes and allocates the limited resources in a manner that effectively reflects the priorities of the governing body.

The budget development and adoption by local governments and public authorities (the "units") is at the core of their financial responsibilities and in North Carolina are governed by provisions of the North Carolina General Statutes (hereafter "G.S."), specifically Chapter 159, Article 3 – The Local Government Budget and Fiscal Control Act (the "LGBFCA"), Part 1 - Budgets, primarily by the following provisions:

- G.S. 159-8 – Annual balanced budget ordinance;
- G.S. 159-9 – Budget officer;
- G.S. 159-10 – Budget requests;
- G.S. 159-11 – Preparation and submission of budget and budget message;
- G.S. 159-12 – Filing and publication of the budget; budget hearings;
- G.S. 159-13 – The budget ordinance; form, adoption, limitations, tax levy, filing;
- G.S. 159-13.1 – Financial plan for intragovernmental services;
- G.S. 159-13.2 – Project ordinances;
- G.S. 159-14 – Trust and agency funds; budgets of special districts;
- G.S. 159-15 – Amendments to the budget ordinance;
- G.S. 159-16 – Interim budget;
- G.S. 159-17 – Ordinance procedures not applicable to budget or project ordinance adoption; and
- G.S. 159-17.1 – Vending facilities.

It is important to remember that these statutes are modified or updated from time to time by the General Assembly – be sure you are using the most current rules. Access to the General Statutes is available without charge at the website of the North Carolina General Assembly, www.ncga.state.nc.us. When using the statutes at the website, please read the caveats on the main NC Statutes page.

This policy statement sets out matters to be considered by the governing board, the finance officer and staff of the unit in the preparation, adoption and administration of the budget. The first section (Part I) discusses the requirement under G.S. 159-8 that each local government and public authority shall operate under a balanced budget ordinance and the role of the budget officer. Part II reviews the budget calendar, the dates required by G.S. 159-10 through G.S. 159-13, and discusses various management considerations in the budgeting process.

Parts III and IV discuss estimating revenues and estimating appropriations, respectively. Techniques to increase revenues are provided. It is noted that the estimated tax collection percentage in the budget is limited by G.S. 159-13(b)(6) to the prior year's actual rate, with some adjustments allowed for motor vehicle property tax collections. The discussion includes estimating ad valorem tax revenue in a year of property revaluation and budgeting for motor vehicle tax revenues under "Tax and Tag Together", including estimating the tax collection percentage. Preparing the budget for intergovernmental revenues, charges for services and investment earning is discussed. Revenue should be budgeted conservatively and all increases thoroughly documented.

In budgeting appropriations, one must remember that Article V, Section 2(7) of the North Carolina State Constitution provides that "The General Assembly may enact laws whereby … any county, city or town, and any other public corporation may contract with and appropriate money to any person, association, or corporation <u>for the accomplishment of public purposes only</u>." Furthermore, G.S. 159-28 requires that "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." The finance officer's responsibility is to see that obligations are paid within the spending limits set by the budget ordinance. The budget officer's responsibility is to see that a workable budget ordinance is presented to the board for adoption. The required appropriations, items not requiring appropriation and the restrictions on appropriation are discussed in Part IV. Budgeting continuation and expansion expenditures as well as development of a capital improvement program are discussed. If a unit needs to use a portion of fund balance to bring the budget into balance for a governmental fund, it must determine the amount available for appropriation in accordance with G.S. 159-13(b)(16). 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 eight percent (8.0%) of total expenditures. This represents approximately one month's average expenditures. It should be noted that 8% is the <u>minimum</u> required 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 to have sufficient funds to quickly respond to emergencies and other unforeseen circumstances. G.S. 159-13(b)(3) limits amounts budgeted for contingencies to five percent (5.0%) of all other appropriations for the fund. Budgeting transfers and interfund borrowings are also discussed.

Various special budget considerations including capital project and grant project ordinances, capital reserve funds, internal service funds, and trust and agency funds are discussed in Part V. G.S. 159-26(b)(6) requires that the construction activity financed by debt issues be accounted for in a separate capital project fund. Whether the enterprise capital project fund has an annual budget or a project ordinance is a matter for local decision. The staff of the LGC generally recommends the use of project ordinances for capital projects. Capital reserve funds are authorized by G.S. 159-18 and are used to accumulate resources for ongoing or future capital projects. Transfers to other funds are the only type of appropriations that may be made in a capital reserve fund [G.S. 159-22]. Internal service funds and agency funds are also discussed.

Part VI discusses adopting, administering and amending the budget. When submitting the budget to the board, the budget officer is required by G.S. 159-11(b) to include a budget message. The budget 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". 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)]. 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. The ordinance must be adopted as a document, not simply by reference to its existence.

Tools used to manage the budget by the budget officer and by the finance officer are discussed. In most units, the preaudit certificate is used as the primary tool of budget administration. 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. The legal level of budgetary control is the lowest level at which resources may be reallocated with prior board approval and should be defined in the budget ordinance. 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 G.S. 159-13. Except in very limited circumstances, budget amendments may not increase or decrease the tax levy or alter taxpayer's liability.

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. G.S. 159-8 provides that "… no local government or public authority may expend any moneys, regardless of their source, …except in accordance with a budget ordinance or project ordinance adopted under this Article …", thus the local government must be very sure that <u>no</u> funds will be spent or obligated between June 30 and the day the annual budget is adopted in order to exempt itself from adoption of an interim budget ordinance.

Part VII discusses alternative approaches to budgeting including performance budgeting and zero-based budgeting. Part VIII provides references to additional readings and resources.

Part IX provides a variety of exhibits including sample budget ordinances, capital reserve funds resolutions, capital improvement program documentation, fund balance policy information and other items.

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Part I – Annual Balanced Budget

A. Introduction

G.S. 159-8 requires 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.

Several units develop multi-year operating models; 1) to track the future budget impacts of decisions, 2) identify future budget issues early to provide ample time to address and 3) provide quick "what if" scenarios for management when reviewing revenue or expenditure options.

B. 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. 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 Part II, Section A. Budget Calendar) 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 Part VI, Section E. Interim Budgets.)

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)].

In a year of a general reappraisal of real property, the budget shall also include a statement of the revenue-neutral property tax rate [G.S. 159-11(e)]. A worksheet for calculating the revenue-neutral property tax rate is provided on the State Treasurer's website, www.nctreasurer.com. Select "Divisions" followed by "Local Fiscal Management" then select "Other Worksheets and Resources". For an in-depth discussion of the revenue-neutral tax rate, see Chris McLaughlin's post on UNC School of Government Coates' Canons: The Revenue-Neutral Tax Rate, June 30, 2011 and see Sect Part III.B.2. of this document.

For an overview of the applicable procedural requirements and frequently asked questions about budgeting, see Kara Millonzi's post on UNC School of Government Coates' Canons: FAQs on Adopting the Budget Ordinance, June 14, 2012. The Coates' Canons NC Local Government Law Blog (canons.sog.unc.edu) posts offer highly recommended readings on a variety of pertinent topics. The search feature allows one to easily find any available articles.

C. 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.

Larger units of local government begin their annual budget preparation before January while smaller units begin in January or February. This allows departments to submit and budget and management to review and prepare budget and the message for the governing board by June 1st.

Part II – Budget Preparation

A. Budget Calendar

The recommended budget preparation calendar follows. The dates required by G.S. 159-10 through G.S. 159-13 are indicated by bold text.

Dates	Process
Prior to December	A work plan for the budget process is developed and shared with department heads and the governing board. Any user fee studies are started and completed before or during the early stages of the budget process.
January or February	The budget office should estimate how the revenues, expenditures and fund balance will look on June 30 and share with management. Some units share this information with their governing board at a work session or retreat. This allows the governing board to provide guidance, priorities or goals to management to use in budget development. Information necessary to develop the budget should be made available to department heads. This data includes: actual revenues and expenditures for the prior fiscal years, normally between one and five years of data; actual revenues and expenditures for current fiscal year (as up to date as possible) the estimated revenues and expenditures for the entire current year; and the current year salaries and wages for each employee. The budget office or manager usually develops a memorandum to provide information to departments to help them with budget preparation. This communication usually informs the departments about new revenues that will be available for budget expansions or revenue shortfalls that departments must help with by reducing expenditures. He also informs departments of any governing board goals that they will need to budget. It is recommended that units review current budget as soon after property tax collections have occurred, which is end of January for most units. If unit are required to make changes to the current year budget, this will affect the budget process and information provided to departments.

Dates	Process
Between February and April Before **April 30th** G.S. 159-10	Requests from departments for the budget year are due.
Between April and May	Estimated revenues and appropriations are reviewed and adjusted. Decisions are made that allow the budget office to balance the budget. Arrangements to print the budget are made if necessary.
Mid-May, but not later than **June 1st** G.S. 159-11(b)	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. Many units place the recommended budget along with the budget message on their web site.
Not earlier than 10 days after the budget is presented to the board and not later than **July 1st** G.S. 159-13	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 cannot be held earlier than 10 days after the budget is presented to the board.

For an overview of the applicable procedural requirements and frequently asked questions about budgeting, see Kara Millonzi's post on UNC School of Government Coates' Canons: Notices and Public Participation in the Budgeting Process, May 18, 3015 and FAQs on Adopting the Budget Ordinance, June 14, 2012.

B. Budgeting Considerations

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 budget officer estimating how the current budget year will end on June 30 and determining if current year budget will affect development of next year's budget. Budget officer normally will estimate budget for next year using current year expenditures except for mandated increases such as increase or decrease in debt service. Major revenues such as property taxes and sales tax are roughly estimated. Additional available revenues or the gap between estimated revenues and expenditures is developed and communicated to departments along with guidance from the manager and/or governing board. During this time the finance officer, budget officer and manager work closely together to provide necessary information to accomplish the above tasks. Revenue estimates should be reasonable estimates of revenues to be realized by the department's operations during the year. The budget officer will review methodology and documentation for all revenue estimates. 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 continue to monitor current year operations, estimate fund balance, finalize any user fee studies and work with outside entities that will submit request to be included in the budget. Many units of government control positions in either Human Resources or Budget department. Many times salaries, vacancy rates and potential raises are developed centrally for the governmental unit. Estimated increases in benefit costs or reductions in benefits to employees are also being developed for the organization. Many governmental units model potential pay raises at different percentages as this can be a key balancing tool for the budget officer and manager. Other units of government make salary and wage decisions early in the process and communicate this information to the department managers so that salary increases can be factored into each department budget request from the beginning of the budget process.

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. Many budget departments document not only increases to the current budget being developed but impact to future budgets. 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. Decisions dealing with building and equipment maintenance are often documented in the unit's policy. Criteria the unit uses to make maintenance vs. replacement decisions when documented in policy make the budget process more efficient.

For a discussion of the some budgeting options when the economic outlook is uncertain, see Kara Millonzi's post on UNC School of Government Coates' Canons: Local Government Budgeting Options when Revenue Streams are Uncertain, June 15, 2013.

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Part III – Estimating Revenues

A. Introduction

While there are several approaches to budgeting expenditures, revenues are estimated using detailed analyses, including past amounts, trends, any factors that will affect revenues including changes in level of service for next year. Usually major revenue sources estimates such as property taxes and sales tax are made by the budget office, while departments estimate revenues that relate to their specific departments such as inspections, permits and various charges for services. Revenues should be estimated using conservatism so that services citizens were lead to believe they would receive will not have to be cut if revenues are not realized.

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.

Increasing revenues can be realized in at least four different ways:

- Increase the ad valorem tax rate;
- Increase rates or fees currently being charged to users for services;
- Impose new fees to be charged to users for services currently being provided at no charge;
- Increase the amount of the prior years' ad valorem taxes to be collected and any other past due accounts and take steps to improve the collection of these taxes. (See the Policies Manual for Local Governments, Section 50 – Property Tax Assessment, Billing and Collection for guidance in billing and collecting property taxes.)

Caution: the increase should be realistic. 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 local government tax rate and tax collection rate information in the two memorandums, Management of Cash, Taxes and Fund Balance Available for the most recent fiscal year (one for counties and one for municipalities). The units are sorted by similar populations for group average purposes. These memorandums are available on the State Treasurer's web site, www.nctreasurer.com under "Divisions", "State and Local Government", "Local Fiscal Management", "Memos" or here.

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. For additional information, see the Policy Manual for Local Governments, Section 55 – User Fees and Kara Millonzi's post on UNC

School of Government Coates' Canons: Levying the Property Tax: Earmarking Tax Revenue for Specific Purposes, January 21, 2010.

The basic revenue types include ad valorem taxes, intergovernmental revenues, charges for services, investment earnings, and other miscellaneous revenues. Each of these will be considered in the following sections.

B. Ad Valorem Tax Revenue

1. An Overview
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. In this context, "prior year" refers to the fiscal year in progress when the budgeting process occurs. For example, when settling on a tax collection percentage for the 2015-2016 budget in the spring of 2015, the tax collection percentage is estimated for the yet to finish 2014-2015 fiscal year. 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 cannot 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). For additional information, see the Policy Manual for Local Governments, Section 50 – Tax Assessment, Billing and Collection. For a discussion of the tax collection percentage, see Chris McLaughlin's post on UNC School of Government Coates' Canons: Budgets and the Tax Collection Percentage, March 23, 2012.

2. Budgeting in Year of a Real Property Tax Revaluation
In years where a general reappraisal has occurred for real property the budget officer shall include in the budget message the revenue-neutral tax rate. The revenue-neutral tax rate should produce the same revenue after taking into account, a growth factor and adjustments for any annexations, deannexations, mergers or similar events, as if the revaluation had not occurred. [G.S. 159-11(e)] For an in-depth discussion of the revenue-neutral tax rate, see Chris McLaughlin's post on UNC School of Government Coates' Canons: The Revenue-Neutral Tax Rate, June 30, 2011.

3. Budgeting for Motor Vehicle Tax Revenues

   Effective September 1, 2013, a new property tax collection program for the majority of registered motor vehicles was ushered in. The program has been appropriately named "Tag & Tax Together". As the name implies, the property tax on registered motor vehicles along with all annual vehicle tag fees are now billed and collected simultaneously, there is no longer a lag between when the tag fees and property tax on the registered motor vehicle is collected. G.S. 105-330.5 has been updated accordingly to reflect the new requirements. For a discussion of the budgeting for motor vehicle tax revenues, see Chris McLaughlin's post on UNC School of Government Coates' Canons: Budgeting Under 'Tax & Tag Together", February 27, 2014; Tag and Tax Together One Year Later, August 29, 2014; and Property Tax Bulletin, No. 165, September 2013, County Obligations for Motor Vehicle Property Tax Collection under the "Tag and Tax Together" Program.

(a) Overview – Tax and Tag Together

Under Tax & Tag Together, the county is no longer responsible for the billing or collection of the property tax revenues associated with registered motor vehicles. The Property Tax Division of the North Carolina Department of Revenue (NCDOR) or a third-party contractor selected by the Division must prepare a combined tax and registration notice for each registered classified motor vehicle. The combined notice must contain all county and municipal taxes and fees due on the registered motor vehicle. The notice must also contain other pertinent information such as, the tax rate of each taxing unit, the appraised value of the motor vehicle, and instructions for payment. Each unit should work closely with NCDOR to assure that the billing information is accurate for the particular taxing jurisdiction.

Pursuant to G.S. 105-330.5(b), NCDOR may collect a fee for the actual cost of preparing, printing, and sending out the notice. Likewise, the collecting authority is responsible for collecting county and municipal taxes and fees assessed under this Article and may receive a fee for collecting these taxes and fees. For a current breakdown of all fees charged per transaction, please contact NCDOR's Property Tax Division. Monthly reports are also available from NCDOR to counties and municipalities detailing the specific fees charged by NCDOR and the collecting authority regarding the billing, collection, and distribution of motor vehicle property tax. Under the new law, only taxpayers that simultaneously pay both the tax and tag fees will be able to obtain a renewed license plate sticker.

Under the new system, the notice that is mailed out to the taxpayer is merely an "invitation to renew". The taxpayer may choose not to renew for one of several reasons. Since the notice is merely an invitation to renew and is not enforceable until the taxpayer decides to actually renew, the motor vehicle collection percentage should be very close to 100%. Only a few exceptions will keep the percentage from reaching 100%. Since the enforceable levy and collection will occur simultaneously, units can expect a collection percentage near 100%. Vehicles purchased directly from dealers are the main exception under this new process. If a vehicle is purchased directly from a dealer, the taxpayer may purchase a limited registration plate or "LRP". These LRP's are not required to be paid immediately upon tag issuance and generally are allowed up to 60 days before payment is due. Special provisions also exist for a taxpayer who has filed for bankruptcy protection. The collection of property taxes for these exceptions should closely mirror the prior system.

(b) Budgeting under Tax and Tag Together

With Tag & Tax Together, units of government will now budget twelve months of collections against the twelve month levy amount. The gross motor vehicle tax revenue amount expected to be collected should be budgeted. Expected fees are not deducted from the budgeted revenue but are separately budgeted and accounted for as expenditures. This includes the administrative fees (from both the NCDOR and the county) associated with the collection process. It is important to separately budget and report the gross revenue and the related fee expenditures amounts. Avoid the temptation to net these two amounts. NCDOR provides detailed reports listing both the gross tax revenue collected from the registered motor vehicle and the associated administrative cost associated with each transaction. However, the total distributable amount NCDOR will remit each month to the taxing unit will deduct of any collection and associated administrative expenses from the total tax revenue amount.

(c) Calculating Estimated Tax Collection Percentage

With "Tag & Tax Together", units of government should now budget twelve months of collection against the twelve month levy amount. Before the new program was implemented, it was common for units to use twelve months of collection against a nine month levy amount. Since there is no longer a lag between the levy and collection, twelve months for both collections and levy should be used. Continuing to use the old system would almost certainly result in a collection percentage well over 100%. Other than the few exceptions mentioned above, the formula used to calculate the collection percentage should be as follows:

$$\frac{\text{Twelve-month collection amount}}{\text{Twelve-month levy amount}}$$

Again, since the collection and levy amount will happen simultaneously with only a few exceptions, the collection percentage should be very close to 100% with LRP's being the biggest factor keeping the collection percentage from reaching 100%. The collecting agency will continue to collect for a period of up to one year from when the invitation to renew was due to be renewed. However, the transaction will not be recorded in the tax levy until it has actually been paid. After the one year period has passed units of government should treat this property as an unregistered motor vehicle and pursue collection efforts outside of the Tag & Tax Together system. If the taxpayer renews within the one year window, collection of interest and all applicable fees will be collected by the collecting authority as described above. If the taxpayer renews after the one year period, the process will start over and the prior year will not be collected under the Tag & Tax Together System. Units of government would then be responsible for collecting the back tax under this scenario.

(d) Summary – Motor Vehicles Tax Revenue Budget

It is anticipated revenue from registered motor vehicle collections will increase under the new Tag & Tax Together program. However, the most accurate predictor of revenue from a unit of government is the preceding twelve months of collections. Remember, since the notice mailed out to taxpayers is merely an invitation to renew, actual revenue amounts may fluctuate from actual collections under the old system. Since the levy is not recorded until the customer pays thus making your collection percentage at or near 100%, revenue numbers may still be significantly different than your numbers were under the old system. Units of government should also budget and account for the administrative fees associated with the collection process separately from the actual tax collection amount. It is important to separate these two amounts out in both the budget and the annual audit. Avoid the temptation to net these two amounts together. The actual property tax revenue collected should be reflected before any fees are backed out. NCDOR will provide detailed reports listing both the actual tax revenue collected from the registered motor vehicle and the associated administrative cost associated with each transaction. The total distributable amount NCDOR will remit each month to the taxing unit will subtract out any collection and any associated administrative expense from the total tax revenue amount.

Memorandum No. 2014-18 offers a more in-depth discussion on the new Tag & Tax Together process. Also, several blog posts on the UNC School of Government's web site are available for additional information regarding this process. If a unit has a specific question regarding the various reports available from NCDOR, you are asked to contact the Property Tax division within NCDOR. Under the new system, units should budget collections based on the previous twelve months. The prior twelve months should be used for both collections and levy amount. The collection percentage should be at or near 100% with the most notable exception occurring with LRPs. Electronic distributions from NCDOR will occur monthly. It is widely anticipated collection percentages will most certainly increase and actual revenue numbers should eventually increase as well for the majority of units.

4. 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. Units can include in the normal budget process an amount for estimate taxes on discovered property. For units that do not estimate discoveries as part of the budget process, a 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. Whether a unit estimates discoveries during the original budget process or amends the budget during the year based on actual discoveries, these estimates should never be more than what the unit reasonably expects to collect.

C. Intergovernmental Revenues

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 (www.nclm.org), the Association of County Commissioners (www.ncacc.org), 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. Statewide averages should be used with caution as they may not apply to a particular unit's situation.

D. Charges for Services

Charges for services and user fees should be supported by policy. The unit of government may plan for certain user fees to recover 100% of cost, while others recover less than total cost. The policy normally discusses the recover percentage and reasons for setting policy percentages. For example, water and sewer fees normally are established to recover 100% of the cost of providing the service; however, ambulance fees may be set to recover less than 100% of the cost. A board my decide to reduce the governmental subsidy of certain activities, choosing to phase in the reduced governmental subsidy over time or choosing to reduce all of the subsidy in one year. The plan can also document any legal restrictions for charges or user fees. For additional information, see the Policy Manual for Local Governments, Section 55 – User Fees.

Charges and user fees are normally estimated using existing rate and volume of activity. If unit desires to increase fees by raising rates the existing rate estimate becomes the base that the new rates are compared against. When rates are increased, the unit must evaluate the impact of the increased rate on the volume of service offer. For example, increasing fees for recreational events may reduce the number of people entering the attending the events.

The staff of the LGC annually publishes statistical information on electric system and water and sewer system operations in the two memorandums. The units with water and sewer systems are sorted by similar populations for group average purposes. These memorandums are available on the State Treasurer's web site, www.nctreasurer.com under "Divisions", "State and Local Government", "Local Fiscal Management", "Memos" or here.

E. Investment Earnings

Investment earnings need to be estimated by taking a conservative estimate of earnings rate and applying to estimated available cash by fund and program if interest is allocated back to the program. Interest earned on bond proceeds must be used for purposes for which bonds are authorized.

F. Appropriated Fund Balance

Legally available fund balance can be appropriated in the budget document as a source of revenue. Early during the budget process the budget officer estimates fund balance and what portion is legally available for appropriation. The budget officer revises this estimate throughout the budget process. In addition to the legal calculation provided in G.S. 159-8, the board might have already designated portions of the fund balance for future purposes that would not make it available to use in balancing the budget. Even though the law does not prohibit what fund balance is used for, appropriation of fund balance is a one-time revenue source and should not be used to balance reoccurring expenditures. For example, fund balance should not be used to provide salary increases, fund permanent positions, or provide reoccurring services. A governmental unit best practice is the adoption of a fund balance policy. (See Exhibit J for example policy)

G. Revenue Sources and Associated General Statutes

Major revenue sources and the related statutory authorization follow:

Revenue Source	General Statute
Sales Tax *	G.S. 105 Articles 39, 40, 42 and 46
Tax Rate: Property Taxes	G.S. 160A-209 – Municipal
	G.S. 153A-149 – County
Collection % used for budget	G.S. 159-13(b)(6)
Service Districts	G.S. 160A Article 23 – Municipal
	G.S. 153A Article 16 – County
Animal Tax	G.S. 160A-212 – Municipal
	G.S. 153A-153 – County
Motor Vehicle License Tax	G.S. 20-97
Franchise Tax	G.S. 105 Article 3
Enterprise User Fees	G.S. 160A Article 16 – Municipal See G.S. 160A-314
	G.S. 153A, Article 15 – County See G.S. 153A-277
	G.S. 159-13(b)(14)
Special Assessments	G.S. 160A Article 10 – Municipal
	G.S. 153A Article 9 – County
Street parking-meter receipts	G.S. 160A-301(a) and (b)
Privilege license tax – Beer and Wine **	G.S. 105-113.77 – Municipal
	G.S. 105-113.78 – County
Storm water systems	G.S. 153A-274
Register of Deeds	G.S. 161-10

* For additional information, see Kara Millonzi's post on UNC School of Government Coates' Canons: Local Sales and Use Tax Changes and New State Revenue Sharing Requirement, October 26, 2015.

** Note that nearly all privilege license taxes were eliminated for tax years beginning on or after July 1, 2015 by S.L. 2014-3. For additional information, see Chris McLaughlin's posts on UNC School of Government Coates' Canons: The Axe Finally Falls on Local Privilege License Taxes, May 30, 2014 and More Questions and Answers about the New Privilege License Law, June 13, 2014.

For additional information on revenue sources, see Local Government Revenue Sources in North Carolina, Kara Millonzi, 2011 available from the UNC School of Government.

H. Documentation

All increases in estimated revenues should be thoroughly documented. Revenue is generally a function of two factors: the amount of service provided (volume or level of activity) and the rate per unit of service. For example, water utility revenue is a function of the gallons consumed times the rate charged per gallon. If revenue is budgeted to increase by 10%, identify if it reflects a 10% rate increase and the same volume sold, a 10% increase in services provided at the same rate per unit, or some other combination thereof. The appropriation for the cost of operation should be consistent with the level of activity reflected in the estimated revenues. 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 work papers: "Population growth has increase 10% each of the last three years, with a corresponding increase in recreation services provided over the same three years. This increase in recreation fee revenue was without any increase in rates. 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. There are only two occasions where the unit can modify the tax rate after adoption: 1) When the local government receives revenues that are substantially more or less than amount anticipated and amends budget and tax rate for such increase or decrease before January 1; or 2) When required to do so by another authority. [G.S. 159-15]

Part IV – Estimating Appropriations

A. Introduction

Article V, Section 2(7) of the North Carolina State Constitution provides that "The General Assembly may enact laws whereby … any county, city or town, and any other public corporation may contract with and appropriate money to any person, association, or corporation for the accomplishment of public purposes only." [Emphasis added.]

Pursuant 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." 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. For purposes of discussion we have divided expenditures into three categories: required appropriations, continuation appropriations and expansion appropriations.

B. Required Appropriations

The Local Government Budget and Fiscal Control Act requires certain appropriations 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)]. This also includes installment purchase contracts (e.g., G.S. 160A-20 agreements) that do not have nonappropriation clauses. It is the expectation of the LGC that **all** installment purchase contracts will be appropriated. The LGC should be contracted if the unit does not plan on appropriating installment purchase contracts.
2. Amounts must be appropriated to eliminate any deficits in any funds [G.S. 159-13(b)(2)]. These are deficits as calculated on the modified basis of accounting.
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; 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.

C. 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. These are usually non-cash items.

1. No appropriation is necessary for depreciation of capital assets. However, units may want to budget for replacement cost for certain assets in certain funds.
2. Proceeds from capital leases and the resulting expenditures for the purchases of the assets are not required to be budgeted where the moneys do not flow through the unit; however, units may budget proceeds and expenditure of asset if they desire. Under both capital leases and installment purchase contracts, the amount of the payments due on the lease or installment 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.

D. 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 that were issued;
   c. A reserve fund to be used later for the approved purpose [G.S. 159-13(b)(13)].
   d. There are certain federal arbitrage restrictions on the use of bond proceeds for debt service payments and funding reserve funds. Local officials should consult with their bond attorney regarding arbitrage issues relevant to their unit of local government. For further information, consult Section 95: Arbitrage of this policy manual.
2. Appropriations for purposes that require voter approval for expending property taxes [Article V, Section 2 (5) of the North Carolina State 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. Members of the two municipal power agencies in North Carolina 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.

Where amounts transferred between funds represent cost allocations or the reimbursement of a fund for expenditures paid on behalf of another fund, the amount should be budgeted and recorded as an expenditure or expense reduction in the receiving fund and an expenditure or expense in the paying fund. For example, if all payroll amounts are charged to the General Fund and subsequently allocated to other funds based on the services provided to those funds, the allocation should not be recorded as a transfer but as a reduction in payroll expenditures in the General Fund and payroll expenditures or expenses in the funds receiving the benefits. The budget should reflect the payroll cost in the funds receiving the benefit.

E. 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.

1. County and City School Systems

   a. 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, G.S. 115C-521, G.S. 115C-522, G.S. 115C-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 and then only with approval of County Commissioners.) 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. [G.S. 115C-429(b)] (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)].

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.

c. 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 apportionment per pupil 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.

d. 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.

2. 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.

3. 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 North Carolina of funds appropriated by the state for public assistance, its share of beer and wine taxes [G.S. 108A-93] or both. The county can, at the board's discretion, appropriate funds for non-mandated social services programs as well [G.S. 153A-255].

4. 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.

F. 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 unless unit of government has a history of consistent salary reversions. 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. Certain benefits such as compensated absences, severance pay and OPEB might be reimbursable from federal and state sources if certain criteria are met. Please note that 2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the "Uniform Guidance") will supersede and streamline the requirements from OMB Circulars A-21, A-87, A-110, A-122, and A-133 as well as certain sections of Circular A-50. The Audit Requirements of the Uniform Guidance will apply to audits of fiscal years beginning on or after December 26, 2014. Finance department and auditors should be consulted to make sure any budgeting requirements are met in order to claim reimbursements.

Other significant continuation amounts are annual and multiyear contracts. Governments manage contracts in a variety of ways, but all normally have either a centralized or decentralized method for tracking contracts so that the budget office can determine which contracts will need to be re-budgeted in the annual budget process.

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.

Another 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.

G. 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 North Carolina laws that require new expenditures and performance statistics showing the need for the expenditures being requested. Your 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.

H. 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 update the CIP plan in the fall or winter before the annual budget process begins. Using a CIP can help to effectively plan and organize capital expenditures and associated operating cost when they are put into operation.

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 unplanned financing vehicles to construct 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 a unit 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 seven years. Shorter periods do not allow for adequate planning time for major projects, and longer periods result in less precise estimates than possible with a five to seven year horizon. 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 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 prevent a unit from initiating a capital project that is not in the plan. All capital needs cannot be accurately forecasted. 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 Exhibit I.

I. 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 for a governmental fund, 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 in accordance with G.S. 159-13(b)(16). 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 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. 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.

Fund balance available for appropriation in a particular governmental 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. A worksheet for calculating fund balance available is provided on the State Treasurer's website, www.nctreasurer.com. Select "Divisions" followed by "Local Fiscal Management" then select "Other Worksheets and Resources". See the attached sample of the estimation procedure and subsequent calculation of estimated fund balance available at June 30 in Exhibit G.

To appropriate fund balance of enterprise funds the Statement of Net Asset must be converted to modified accrual from full accrual. This is done as G.S. 159-13(b)(16) is applied to modified accrual statements. To estimate fund balance for an enterprise fund take current assets less current liabilities plus any current debt. This approximates total available fund balance.

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.

Appropriated fund balance should not be used to fund reoccurring expenditures as fund balance is not a reoccurring revenue source. The unit of government should have a board-adopted policy that clearly outlines the conditions under which fund balance appropriated can be justified. The budget officer should evaluate whether the proposed budget will maintain the fund balance goals the unit has established.

Units of government also accumulate funds for future purposes in special revenue funds, capital project funds and capital reserve funds. The purpose for which the funds will be used will help determine which fund will best suit the unit.

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 eight percent (8.0%) of total expenditures. This represents approximately one month's average expenditures. It should be noted that 8% is the <u>minimum</u> amount 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 dependent upon the frequency and amount of funding received from state, federal and other sources. Units of government that issue debt in the bond market and are rated by national rating agencies should have a fund balance policy and will want to make sure that proposed budget will allow the unit to maintain or improve their long-term debt rating.

J. 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. The budget must first be revised reducing the contingency appropriations amount and increasing the amount appropriated to a department, a function, or a program area; then actual expenditure or expense can be charged to the amended budget. This revision of the budget 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. 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 five percent (5.0 %) 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.

K. 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.

L. 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 aggregate 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 funds 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. For further discussion of transfers, see Kara Millonzi's posts on UNC School of Government Coates' Canons: Transferring Money from an Enterprise Fund: Authority, Limitations and Consequences, June 5, 2015 and Transfers between an Enterprise Fund and the General Fund, October 26, 2009.

Members of the North Carolina Eastern Municipal Power Agency must be familiar with the permitted uses of revenue and the limitations imposed on transfers by G.S. 159B-39. Under the statute, amounts transferred to other funds as a rate of return on investment in the electric system shall not exceed the greater of (1) three percent (3%) of the gross capital assets of the electric system, or (2) five percent (5%) of the gross annual revenues of the electric system with amounts determined from the audited financial statements for the preceding fiscal year. If the statutory amount exceeds the limits imposed by the unit's electric transfer policy, the limitations of the electric transfer policy shall apply.

M. Interfund Borrowings

Units of government may choose to permit either temporary short-term or long-term borrowings between funds.

1. Cash Flow Temporary Borrowings
   Units of government receive revenues at various times throughout the year depending on the revenue source. Programs, functions and sometimes fund borrow funds from sources other than their funding source. Reimbursement grants are obvious examples of programs where a temporary borrowing may be required until the unit is reimbursed from the grant. Most times these are timing issues and not budgeted as loans. If cash borrowing exists on June 30th, these borrowings are recorded as due to and due from on governmental statements since they are temporary and will be repaid within the next year.

2. Interfund Borrowings – Loans
   Some units may choose to allow loans between funds. This is done if one fund has excess resources during the time another fund is in need of revenue resources. The unit of government will need to decide if interest expense will be charged to the borrowing fund to recover lost interest income in the lending fund. The following is an example of one fund loaning another fund across 5 years:

   A multiyear fire district fund needs to finance fire trucks. Another governmental fund has investment income available for the next 5 years and estimates that it will earn on average 3.5% per year. The fire district fund estimates that cost to finance new fire equipment will be at 5% per year. The unit of government decides to finance the new equipment through interfund borrowing at 4.25% and reducing principal in equal amounts every year over the next five years. The unit must make sure that the lending fund will not need the funds across the entire time the financing takes place.

If this practice is permitted, it should be stated in the budget ordinance or approved by the board at time the borrowing is approved. 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. Loans that cross the fiscal year and are other than temporary cash flow borrowing as described above should be recorded on the fund balance sheets as "loans" and not as "due to or due from". Loans under current accounting guidance does not need to account for loans as a revenue and expenditure; however, most governments for budgetary practice budget annual loan payments between funds as revenue to lending fund and expenditure to borrowing fund. Also in the year of the loan governments budget the entire loan amount. Budgeting of these entries provides open disclosure of movement of funds. Adjusting entries are made by the finance department to bring the loan accounting into compliance for financial statement presentation. 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. Repayment of loan should just not be budgeted. If interfund receivables and payables are no longer going to be repaid, the governing board must approve the permanent transfer of the funds from the lending fund.

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Part V – Special Budget Considerations

A. Introduction

This part discussed special budget considerations including capital project and grant project ordinances, capital reserve funds, internal service funds, and trust and agency funds.

B. 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. G.S. 159-26(b)(6) requires 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. A sample capital project ordinance is included as Exhibit D. Units of government that have capital projects that are not fully funded with the adoption of the project, must take extra care to make sure that appropriate cash is available to finance project cost. Units that have multiple projects and finance projects on a “just in time” finance system must have a cash flow system as well as a capital projects program. The budget and finance officers must closely coordinate with the construction office to make sure funds are available and that they have been budgeted appropriately. Example: Construction department is building a new jail and in order to take advantage of good pricing has moved up the pace of construction. This is not perceived as an issue by the construction office as a project budget was approved for the entire project when adopted. Project was to issue bonds in spring of year; however, due to new construction schedule funds will be needed in November. This change in schedule will have an effect on timing of bond issuance that was originally planned for multiple purposes, scheduled debt service payments, and budget for operational cost as facility will open early.

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)]. As a practical matter, every project must also have a cash flow schedule that will provide the budget and finance office necessary information on when funds will need to be available to encumber contracts and pay bills. 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 Environmental Quality (DEQ) has adopted a similar policy requiring that projects funded with DEQ 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.

C. Capital Reserve Funds

Capital reserve funds are authorized by G.S. 159-18 and 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]. G.S. 159-20 provides that 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. 159-21 provides that "(t)he cash balances … of capital reserve funds may be deposited at interest or invested as provided by G.S. 159-30." 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 type of appropriations that may be made in a capital reserve fund. These appropriations from the capital reserve fund cannot exceed the amount of available funds in the reserve fund and must be used for capital purposes only.

D. Internal Service 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.

E. Trust and Agency Funds

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 a scholarships/awards fund.

F. Tourism Development Authorities

The governing boards of discretely presented component units that are public authorities subject to G.S. Chapter 159, including tourism development authorities (TDAs), are require to adopt a budget for the TDA incompliance with the provision that chapter. For additional information, see Memorandum No. 2014–08, Operation of and Accounting for Discretely Presented Component Units, Including Tourism Development Authorities, September 30, 2013.

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Part VI – Adopting and Administering the Budget

A. Submission of Budget to the Board

Once the budget officer completes the 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]

In the review of the budget, the budget officer should calculate key ratios that will result from adoption of the budget and compare them to current year expectations. These ratios could fund balance available for appropriation, percentage change in various revenue, expenditures or expenses, and similar ratios. The use of ratio analysis can provide another view of the reasonableness of the budget. A format for a worksheet to calculate expected fund balance for appropriation is illustrated in Exhibit G.

Along with submitting the budget, the budget officer is required to submit a budget message to the board [G.S. 159-11(b)]. The statute provides for specific content in the budget message. The budget 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". While it may be an oral presentation, the strongly recommended practice is that the budget message be written so that it will be available to anyone reviewing the budget at a later time. If the budget message is communicated in an oral presentation, the information presented must be thoroughly documented in detail in the minutes of the board. 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, expected fund balance available for appropriation at the budget fiscal year-end, 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.

B. 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. Many governmental units publish the recommended budget on the internet. Some even make provision for citizens to comment on the document. Use of the internet is up to each governmental unit and is not mandated by general statute.

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 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 non-budget 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)].

Units of government who load their budgets electronically into their accounting system spend May and June making any chart of account changes for the new budget and usually test the loading of the budget so that new budget will be available in the accounting system on July 1.

C. Budget Administration

1. Tools Used by the Budget Office

   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.

The timing of expenditures is important for three reasons:

- to maintain operating efficiency by avoiding wide variations in workloads of the various departments;
- to assure that sufficient funds remain available for operations in the closing months of the fiscal year without the need for budget amendments; and
- 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.

Some of the more commonly used techniques to administer the budget are as follows:

a. <u>Budget authorization or allotments on a period basis</u>
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. Automated accounting system for governmental accounting can offer an allotment features to aid in management of this process.

b. <u>Approval of Projects in Phases or Stages:</u>
This method requires specific managerial start-up or stage 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. The board can approve the entire budget in a capital projects ordinance or approve the budget in stages. If the board approves the entire budget, the unit's operating procedures may provide that a portion of funds are released or made available for the design stage of a construction project. Management will then evaluate and approve design and cost of project and release funds for construction stage. This approval can take place at any level the governmental unit decides.

c. <u>Control of salaries:</u>
Due to the complex legal and personal nature of employee pay and the cross departmental scope of positions in the organization, the control of positions, salaries and the upgrading and filling of new positions should be placed in the hands of the manager or other executive officers. Changes to salaries and benefits affect current and future budgets as well as multiple departments. 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 by units of governments 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.

2. Tools Used by the Finance Officer

The following are tools used by the finance officer to monitor compliance with the budget.

a. Post Year-End Budget Analysis
After financial results for the prior fiscal year-end are finalized, the budget for the current year should be compared to the actual performance for the prior year. This may provide an early warning of financial problems that may arise in the current year and provide an opportunity to address the potential problems. Any significant variations for the expected results for the prior year should be reviewed.

b. Monitoring of Revenues and Expenditures
This is the key tool used by both budget and finance to monitor revenues and expenditures of the adopted budget. The budget office continues to monitor budget to make sure budget is still an accurate estimate of revenues and expenditures. If actual revenues appear to be higher or lower than estimates, this can cause management to revise the expenditure side of the budget. The finance office monitors departmental expenditure against the original budget and any amendments for compliance. Most automated governmental systems have both budgetary and encumbrance controls to aid management in these tasks.

c. Preaudit certificate
In most units, the preaudit certificate is used as the primary tool of budget administration. The finance officer may simply authorize disbursements as long as cash is available and funds are budgeted 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 have a system to compile and review budget to actual revenue and expenditure information, along with any previously recorded encumbrances, on a periodic basis to ensure that funds will be available to meet the unit's needs throughout the fiscal year and a cash flow system to make sure there is sufficient cash available to pay budget expenditures.

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.

For discussions of the preaudit process and requirement, see Kara Millonzi's posts on UNC School of Government Coates' Canons: New Law Modernizes the Preaudit and Disbursement Processes - Part I, June 25, 2015 and New Law Modernizes Preaudit and Disbursement Processes - Part II, September 24, 2015.

D. Budget Amendments

1. Authorization

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 G.S. 159-13.

Budget amendments may not increase or decrease the tax levy or alter a taxpayer's liability unless the following apply:

- the local government receives revenues that are substantially more or less than the amount estimated in budget and adopts an amendment to reduce or increase the property tax levy before January 1, or
- the board is ordered to do so by the courts or an authorized state agency.

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. Other units control budget at line item, object or function, but adopt the budget at a higher level. 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 accounts in order to keep the budget balanced.

2. Documentation of Amendment

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 in appropriations, 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. Units should be very careful about transferring budgeted amounts from non-reoccurring line-items to reoccurring line-items as it increases the future year's appropriations. 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 each year.

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. A sample ordinance amending the budget ordinance is included as Exhibit E.

3. Amendments After Fiscal Year End

Budget amendments may be made after June 30th 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 30th. If budgetary violations occurred during the year, 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.

For a discussion regarding amendment of the budget ordinance, see Kara Millonzi's posts on UNC School of Government Coates' Canons: Amending the Budget Ordinance, August 3, 2009; Altering Local Elected Officials' Compensation During the Fiscal Year, December 9, 2010; and Amending a Newly Adopted Budget Ordinance Before July 1, June 13, 2011.

4. Legal Level of Budgetary Control

   Budget appropriations may be made at the department, function, or project level. Units may control budget at the line item, object or function level but adopt the budget at a higher level. The legal level of budgetary control is the lowest level at which resources may be reallocated with prior board approval. The legal level of budgetary control should be defined in the budget ordinance.

   Many units, within the actual budget ordinance, authorize the budget officer to redeploy moneys from one appropriation, often the contingency appropriation, to another within the same fund if the total involved per transfer is less than a specified amount, for example $1,000. Whenever the budget officer makes this type of adjustment, disclosure to the board is required 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 informed of changes so that they can be monitored. Also, the budget officer is limited by the dollar ceiling on the amount of adjustments that can be made at any given time, and is not actually increasing overall appropriations, but only reallocating them.

E. Interim Budgets

In unusual circumstances, a unit of government might not be able to meet the July 1st 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. [G.S. 159-16] 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. G.S. 159-8 provides that "… no local government or public authority may expend any moneys, regardless of their source, …except in accordance with a budget ordinance or project ordinance adopted under this Article …", thus the local government must be very sure that no funds will be spent or obligated between June 30 and the day the annual budget is adopted in order to exempt itself from adoption of an interim budget ordinance.

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. Taxes are not levied in an interim budget. No amounts are shown for revenues or appropriations of fund balance. Although the title of G.S. 159-16 mentions "budget", the statute addresses only appropriations. Therefore, no amounts for revenues or appropriated fund balance are used to offset appropriations. 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. However, the unit must identify the financial resources to be used to fund the interim appropriations. After the annual budget ordinance is adopted, expenditures under the interim ordinance will be charged to the proper appropriations in the annual budget ordinance when it is adopted. 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, in the annual budget ordinance, to levy sufficient property taxes or other revenues to pay for these obligations.

A key point for local officials to consider is that an interim budget ordinance is designed to provide only short-term, temporary 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 included in the annual ordinance. 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. Rating agencies, grantors and others may look on the use of an interim budget on a routine basis as a sign of poor management. Failure to adopt an annual budget and levy property taxes on a timely basis may also increase the cost associated with the collection of property taxes. If revenues are uncertain then units should take the conservative approach and adjust expenditures or other revenues in order to adopt a balanced budget by July 1. If revenues do come in higher than expected budgets can be amended or funds can be accumulated in fund balance to be used in next year's budget. 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 Exhibit H. 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 must continue with the preparation of the annual budget ordinance once an interim budget ordinance is adopted.

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.

For further discussion of the interim budget, see Kara Millonzi's post on UNC School of Government Coates' Canons: Interim Budget, June 27, 2014.

Part VII – Alternative Approaches to Budgeting

A. Introduction

A unit of government can approach the budget process by presenting, organizing and discussing data differently. Performance budgeting, zero-based budgeting and incremental budgeting are alternatives to the traditional line item budgeting approach that is used by many units. Usually these different approaches are used by larger units and designed to focus on different aspects of the budget process since a line-item approach would not be as productive due to large amount of detail and number of line-items. Units of government need to select the best approach that will allow them to generate the appropriate level of revenues to be used in the most productive way to accomplish the goals of the governing board.

B. 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.

Three types of performance measures are:

- Workload Measures – measures "how much or "how many", e.g., the number of building inspections performed;
- Efficiency Measures – relates outputs to resources consumed, e.g., cost per building inspection performed, or output per labor-hour; and
- Effectiveness Measures – tells you "how well", e.g., indicators of quality or progress toward objectives.

C. North Carolina Benchmarking Project

In 1995, a group of North Carolina cities and counties joined together with the UNC School of Government and the North Carolina Local Government Budget Association (NCLGBA) to create the North Carolina Benchmarking Project, a project to measure performance and costs for several key services.

The purposes of the project include:

1. Developing 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. Producing reliable data that the participating cities and counties can use to assess the performance and costs of the services studied in the project.
3. Providing information to help governments identify performance benchmarks as well as innovative or improved methods of service delivery.

The project website is www.sog.unc.edu/programs/perfmeas. This site includes a comprehensive reference and links to publications of the UNC School of Government related to performance measurement and benchmarking.

D. 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.

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Part VIII – Suggested Readings and Resources

Additional Resources

The following is a review of the additional resources referenced in this policy and available to the finance officer.

Access to the General Statutes is available without charge at the website of the North Carolina General Assembly, www.ncga.state.nc.us. When using the statutes at the website, please read the caveats on the main NC Statutes page.

Additional resources from the Department of State Treasurer are available for downloading at www.nctreasurer.com under "Divisions" followed by "Local Fiscal Management". There are links to various forms, memos, sample financial statements, various reports and much more.

The following publications or web sites are provided. The reader must remember to check publication dates as general statutes might have changed since publication of the referenced resource.

Current LGC memorandums (for fiscal year ended June 30, 2015) which are update annually in the spring and that may be of interest include the following:

- 2016-20 Statistical Information on Electric System Operations
- 2016-19 Statistical Information on Water and Sewer Operations
- 2016-17 Management of Cash, Taxes and Fund Balance Available - Municipalities
- 2016-16 Management of Cash, Taxes and Fund Balance Available - Counties
- 2016-18 Report on County Spending on Public School Capital Outlay

Additional sources of information, which are available from the School of Government at the University of North Carolina, include a wide variety of courses, periodicals and publications addressing topics of particular concern to North Carolina local governments and public authorities. The website of the School of Government is www.sog.unc.edu. Coates' Canons: NC Local Government Law blog (canons.sog.unc.edu) as created by the School of Government in order to provide information about a broad range of issues of interest to local governments including Budgeting and Appropriations, Property Taxes and many others. The School of Government sponsors various e-mail lists hosting discussions and broadcasts related to various topics of interest to local governments.

The North Carolina School of Government publications related to local government finance may be found here.

Local government finance publications include, among others, the following articles from County and Municipal Government in NC:

Article 13: Revenues;

Article 15: Budget Preparation and Enactment; and

Article 17: Capital Planning, Budgeting, and Debt Financing.

Exhibit F – Sample Capital Reserve Fund Resolution

Also, the GFOA publishes recommended practices on various topics available at www.gfoa.org and makes publications available for purchase. Information is also available from the various professional associations (www.ncacc.org or www.nclm.org) for local units; from CPA firms; and from contacts with your colleagues in local governments and industry.

Textbooks available on governmental accounting include Governmental and Nonprofit Accounting, Tenth Edition, 2013, Freeman, Shoulders, Allison, Patton and Smith.

Part IX – Exhibits

Exhibit A – Sample Budget Ordinance for a County

Exhibit B – Sample Budget Worksheets

Exhibit C – Sample Budget Ordinance for a Municipality

Exhibit D – Sample Capital Project Ordinance

Exhibit E – Sample Amendment to the Budget Ordinance

Exhibit F – Sample Capital Reserve Fund Resolution

Exhibit G - Estimation of Fund Balance Available For Appropriation

Exhibit H – Sample Interim Budget Ordinance

Exhibit I – Capital Improvement Program Documentation

Exhibit J – Sample Resolution Adopting a Fund Balance Policy

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Exhibit A – Sample Budget Ordinance for a County

Exhibit A – Sample Budget Ordinance for a County

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Exhibit A – Sample Budget Ordinance for a County

Budget Ordinance for the County of Carolina

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

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, 20X2 and ending June 30, 20X3, 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
Transfer to Water and Sewer Fund	100,000
Total Appropriations	$ 84,814,937

Section 2: It is estimated that the following revenues will be available in the General Fund for the fiscal year beginning July 1, 20X2 and ending June 30, 20X3.

Current year's real property taxes	$ 51,835,866
Current year's motor vehicle taxes	522,128
Prior years' real property taxes	2,088,955
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
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

Exhibit A – Sample Budget Ordinance for a County

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[1]	143,337
Total Estimated Revenues	$ 84,814,937

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, 20X2 and ending June 30 20X3, in accordance with the chart of accounts heretofore established for this county:

Public safety - Fire District 1	$ 9,800
Public safety - Fire District 2	11,000
Total appropriations	$ 20,800

Section 4: It is estimated that the following revenues will be available in the Fire District Fund for the fiscal year beginning July 1, 20X2 and ending June 30, 20X3:

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

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, 20X2 and ending June 30, 20X3, in accordance with the chart of accounts heretofore established for this county:[3]

General government - tax revaluation	$ 585,500

Section 6: It is estimated that the following revenues will be available to the Revaluation Fund for the fiscal year beginning July 1, 20X2 and ending June 30, 20X3: [3]

Investment earnings	$ 36,000
Transfer from General Fund	68,816
Appropriated fund balance	480,684
Total estimated revenues	$ 585,500

Exhibit A – Sample Budget Ordinance for a County

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, 20X2 and ending June 30 20X3, in accordance with the chart of accounts heretofore established for this county:

Landfill administration		$ 25,000
Landfill operations		148,000
	Total appropriations	$173,000

Section 8: It is estimated that the following revenues will be available to the Landfill Fund for the fiscal year beginning July 1, 20X2 and ending June 30, 20X3:

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

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, 20X2 and ending June 30, 20X3, 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		351,020
	Total appropriations	$ 871,000

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, 20X2 and ending June 30, 20X3:

Water sales		$ 417,670
Sewer charges		344,330
Water and sewer taps		8,500
Other operating revenues		500
Transfer from General Fund		100,000
	Total estimated revenues	$ 871,000

Exhibit A – Sample Budget Ordinance for a County

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, 20X2, 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 96.0%. The estimated rate of collection is based on the fiscal year beginning July 1, 20X1 and ending June 30, 20X2 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, 20X2, 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 97.0%. The estimated rate of collection is based on the fiscal year fiscal beginning July 1, 20X1 and ending June 30, 20X2 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, 20X2, 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 beginning July 1, 20X1 and ending June 30, 20X2 collection rate of 96.7%.

Section 14: The County Manager or a designee is hereby authorized to transfer appropriations as contained herein under the following conditions:

a. Transfers between line item expenditures within a department without limitation and without a report being required. These changes must not result in increases in recurring obligations such as salaries.

b. Transfers 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. All transfers between funds require prior approval by the Board of Commissioners in an amendment to the Budget Ordinance.

Section 15: The County Manager or designee may approve all contracts up to $50,000 if funds have already been appropriated in the budget and must provide an official report on such contracts at the next meeting of the Board of Commissioners.

Section 16: The County Manager or designee 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.

Exhibit A – Sample Budget Ordinance for a County

Section 17: 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 20X2

Notes To the Sample Budget Ordinance:

[1] 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. A sample capital project ordinance is included as Exhibit D. 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.

[2] Amounts budgeted in total as miscellaneous revenues might need to be broken out separately for financial reporting purposes depending on their materiality.

[3] Section 5 and Section 6 are the portions of the budget ordinance that apply to an annually budgeted Revaluation Fund. Some units budget this fund as a multi-year fund based on the tax revaluation cycle.

Exhibit A – Sample Budget Ordinance for a County

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Exhibit B – Sample Budget Worksheets

Exhibit B – Sample Budget Worksheets

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Exhibit B – Sample Budget Worksheets

The following are budget worksheets that may assist local governments in some of their budget preparation. They are available at the website, www.nctreasurer.com, as Excel® worksheets to facilitate customization by units to meet their specific needs.

The first two worksheets may be used to summarize revenues and expenditures or expenses for any annually budgeted fund. The third worksheet can be used to assist in the estimation of salaries and wages, expenditures or expenses. The fourth worksheet is designed to provide information regarding capital items that are proposed for purchase in operating budgets. Major construction projects or purchases are not normally budgeted in the operating budget but are included in the budget for capital project funds. Exhibit D provides a Sample Capital Project Ordinance.

Exhibit B – Sample Budget Worksheets

Budget Worksheet

For Year Ended June 30, 20X3

Annual Budget Estimate - Revenues

01 - General Fund		Prior Year	Current Year				Budget Year	
		20X0-20X1	For Year Ended June 30, 20X2				Budget	**Board**
	Account			Actual to	Estimated		Officer's	**Approved**
Account Description	Number	Actual	Budgeted	February 28	March-June	Entire Year	Estimate	**Estimate**
Ad valorem taxes:								
Current Year Real Property	11-31X4-110	49,141,096	50,438,149	50,492,762	65,890	50,558,652	52,313,442	**51,690,663**
Prior Year Real Property	11-31X3-110	1,705,633	1,747,350	1,652,633	138,281	1,790,914	1,957,860	**1,957,860**
Penalties and Interest	11-31X3-170	469,190	490,550	419,632	73,018	492,650	546,451	**546,451**
Etc.								

This worksheet is designed to project actual revenues for the current year and aid in the estimation of budgeted revenues for the next year for each annually budgeted fund. The worksheet should be modified to reflect the organizational structure, chart of accounts and needs of the unit.

Exhibit B – Sample Budget Worksheets

Budget Worksheet

For Year Ended June 30, 20X3

Annual Budget Estimate - Expenditures

01 - General Fund		Prior Year	Current Year				Budget Year		
		20X0-20X1	For Year Ended June 30, 20X2						**Approved**
	Account			Actual to	Estimated				**by**
Account Description	Number	Actual	Budgeted	February 28	March-June	Full Year	Requested	Proposed	**Board**
General Government:									
Governing Body	11-4110-000	124,361	130,000	104,507	23,568	128,075	135,000	135,000	**135,000**
Administration	11-4120-000	277,219	294,090	203,959	88,075	292,034	335,130	335,130	**317,465**
Elections	11-4170-000	372,461	378,000	251,428	126,092	377,520	370,825	367,800	**367,800**
Finance	11-4130-000	659,465	661,075	429,532	214,766	644,298	721,500	721,500	**725,035**
Taxes	11-4140-000	1,515,103	1,646,130	1,108,453	534,830	1,643,283	1,742,925	1,700,200	**1,679,101**
Legal	11-4150-000	46,840	48,000	32,000	16,000	48,000	50,000	50,000	**50,000**
Register of Deeds	11-4180-000	165,983	168,750	112,237	56,288	168,525	375,000	375,000	**375,000**
Public Buildings	11-4190-000	1,060,156	1,069,000	613,725	455,225	1,068,950	1,070,000	1,069,500	**1,069,500**
Court Facilities	11-4160-000	1,380,723	1,382,000	920,900	460,450	1,381,350	1,385,000	1,385,000	**1,385,000**
Central Garage	11-4250-000	171,205	173,800	115,617	57,983	173,600	175,000	175,000	**175,000**
Total		5,773,516	5,950,845	3,892,358	2,033,277	5,925,635	6,360,380	6,314,130	**6,278,901**
Etc.									

This worksheet is designed to project actual expenditures or expenses for the current year and aid in the estimation of budgeted expenditures or expenses for the next year for each annually budgeted fund. The worksheet should be modified to reflect the organizational structure, chart of accounts and needs of the unit.

After audited financial statements are available, comparison of amounts in the worksheet column titled "Estimated Full Year" versus the actual full year amounts can be a useful exercise to improve both the ability to project financial results for the unit and the accuracy of future budgets. The comparison may also provide advanced warning of any potential short-comings in the adopted budget.

Exhibit B – Sample Budget Worksheets

Budget Worksheet

For Year Ended June 30, 20X3

Annual Budget Estimate - Salaries and Wages

01 - General Fund			Current Salary		Proposed Salary		**Approved Salary**	
Employee	Position	Date of Last Increase	Per Pay Period	Annual	Per Pay Period	Annual	**Per Pay Period**	**Annual**
General Government - Admistration								
	County Manager	July 1, 20X2	4,970.83	59,650	5,169.92	62,039	**5,169.92**	**62,039**
	Assistant County Manager	July 1, 20X2	3,605.83	43,270	3,750.00	45,000	**3,750.00**	**45,000**
	Purchasing Agent	July 1, 20X2	1,875.00	22,500	2,000.00	24,000	**2,000.00**	**24,000**
Etc.								
Number of Employees			Current		Proposed		**Approved**	

This worksheet is designed to assist in the determination and control of salary and wages expenditures or expenses for the budget year.

Exhibit C – Sample Budget Ordinance for a Municipality

Exhibit C – Sample Budget Ordinance for a Municipality

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Exhibit C – Sample Budget for a Municipality

Budget Ordinance for the City of Dogwood

BE IT ORDAINED by the Governing Board of the City of Dogwood, 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, 20X2, and ending June 30, 20X3, 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	5,000
Total Appropriations	$ 610,720

Section 2: It is estimated that the following revenues will be available in the General Fund for the fiscal year beginning July 1, 20X2, and ending June 30, 20X3:

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	7,000
Total estimated revenues	$ 610,720

Exhibit C – Sample Budget for a Municipality

Section 3: The following amounts are hereby appropriated in the Municipal Building Capital Reserve Fund for the fiscal year beginning July 1, 20X2, and ending June 30, 20X3 in accordance with the chart of accounts heretofore approved for the Town:

Reserve for future expenditures	$ 10,000

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, 20X2, and ending June 30, 20X3:

Transfer from General Fund	$ 10,000

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, 20X2, and ending June 30, 20X3, 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	9,000
Total appropriations	$ 209,560

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, 20X2, and ending June 30, 20X3:

Water usage charges	$ 140,600
Sewer usage charges	56,240
Taps and connection fees	6,000
Other revenues	6,720
Total estimated revenues	$ 209,560

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, 20X2, and ending June 30, 20X3, 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	15,000
Total appropriations	$ 428,690

Exhibit C – Sample Budget for a Municipality

Section 8: It is estimated that the following revenue will be available in the Electric Fund for the fiscal year beginning July 1, 20X2, and ending June 30, 20X3:

Electric usage charges		$ 422,000
Other revenue		6,690
	Total estimated revenues	$ 428,690

Section 9: The following amounts are appropriated in the Wastewater Treatment Capital Reserve Fund for the fiscal year beginning July 1, 20X2, and ending June 30, 20X3:

Transfer to Wastewater Treatment Plant Capital Project Fund	$ 20,800

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, 20X2, and ending June 30, 20X3:

Transfer from General Fund		$ 5,000
Fund balance appropriated		15,800
	Total estimated revenues	$ 20,800

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, 20X2, 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 94.0%. The estimated rate of collection is based on the fiscal 20X1-20X2 collection rate of 96.4%.

Section 12: The City Manager or a designee is hereby authorized to transfer appropriations as contained herein under the following conditions:

a. Transfers between line item expenditures within a department without limitation and without a report being required. These changes must not result in increases in recurring obligations such as salaries.

b. Transfers 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 Governing Board.

c. All transfer between funds require prior approved by the Governing Board in an amendment to the Budget Ordinance

Section 13: The City Manager or a designee 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.

Exhibit C – Sample Budget for a Municipality

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, 20X2

Note To Sample Budget 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 Exhibit D – 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.

Exhibit D – Sample Capital Project Ordinance

Exhibit D – Sample Capital Project Ordinance

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Exhibit D – Sample Capital Project Ordinance

Capital Project Ordinance for the City of Dogwood

BE IT ORDAINED by the Governing Board of the City of Dogwood, 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		1,440,000
	Total appropriations	$ 1,650,000

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 Fund		20,800
	Total estimated revenues	$ 1,650,000

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.

Exhibit D – Sample Capital Project Ordinance

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 20X2

Exhibit E – Sample Amendment to the Budget Ordinance

Exhibit E – Sample Amendment to the Budget Ordinance

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Exhibit E – Sample Amendment to a Budget Ordinance

Amendment to the Budget Ordinance

BE IT ORDAINED by the Governing Board of the City of Dogwood, North Carolina, that the following amendment is made to the annual budget ordinance for the fiscal year ending June 30, 20X3:

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

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

This will result in a net increase of $32,598 in the appropriations of the General Fund.

Section 2: To amend the General Fund, the estimated revenues are to be changed as follows:

Acct No.	Account		Decrease	Increase
XXXX	Current year's property taxes[1]			$32,398
XXXX	Investment Income			200
		Total	$ 0	$32,598

The budget office has performed a thorough analysis of property taxes for the year and has determined that actual collections will exceed current budget by at least $32,398.[1] We are therefore recommending that current year's property tax revenue estimate be amended as indicated.

The budget office has also reviewed interest earnings and due to higher than estimated market rates actual investment income is estimated to exceed current budget by at least $200.[2]

Section 3: Copies of this budget amendment shall be furnished to the Clerk of the Governing Board, and to the Budget Officer and the Finance Officer for their direction.

Adopted this ______ day of _______________20X3

Exhibit E – Sample Amendment to a Budget Ordinance

Notes To Sample Amendment to the Budget Ordinance:

[1] This assumes that for budgeting purpose, the City used an estimated collection rate lower that 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.

[2] Many revenues are not fully collected until June 30. To revise estimates mid-year requires careful analysis to ensure that revenue estimates will not be overestimated. Most revenue amendments are for new revenues.

Exhibit F – Sample Capital Reserve Fund Resolution

Exhibit F – Sample Capital Reserve Fund Resolution

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Exhibit F – Sample Capital Reserve Fund Resolution

Resolution on the
Establishment and Maintenance
of the
Municipal Building Capital Reserve Fund

WHEREAS, there is a need in the City of Dogwood, 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 City; and

WHEREAS, the City must bear the cost of constructing the municipal building at an estimated cost of $1,200,000.

NOW, THEREFORE, BE IT RESOLVED by the governing board that:

Section 1: The Governing Board hereby creates a Capital Reserve Fund pursuant to the provisions of The Local Government Budget and Fiscal Control Act, N.C. General Statutes Chapter 159, Article 3, Part 2, 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 one million two hundred thousand dollars ($1,200,000) has been received.

Section 3: The Board will appropriate or transfer an amount of no less than $100,000 each year from other funds to this fund.

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

Adopted this ______ day of _______________20X2

Exhibit F – Sample Capital Reserve Fund Resolution

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Exhibit G – Estimation of Fund Balance Available for Appropriation

Exhibit G – Estimate of Fund Balance Available for Appropriation

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Exhibit G - Estimation of Fund Balance Available For Appropriation

A unit of government should estimate total fund balance and that portion of fund balance that is available for appropriation for three reasons. First, estimated fund balance will be used as input into the unit's financial planning and forecasting. The second reason is to provide the budget office and management an estimate of the portion of fund balance that is legally available to be appropriated, making sure that G.S. 159-08 is not violated. The legally available portion of fund balance represents the most a unit of government can appropriate of fund balance. The third reason is to provide the budget office and management an estimate of the portion of fund balance that is practically available to be appropriated, making sure to comply with policies adopted by and guidance provide by the governing body. Units of government often have policies or guidance that instructs or requires management to set aside additional amounts of fund balance for specified purposes. The most common is a governing body requirement that a unit of government maintain a fund balance that is sufficient to provide the unit adequate cash flow and cash reserves (savings) to meet the needs of the public.

This process involves several steps.

The first step is the estimation of the total fund balance at June 30th. This calculation can be done by the finance or budget officer. Larger units normally ask that departments estimate their expenditures and revenues through June 30th. These estimates are carefully reviewed by Finance or Budget Department in preparing the budget and estimating available fund balance. An example of this calculation follows:

Estimated Revenues through June 30th	$ 4,238,645
Estimated Expenditures through June 30th	4,125,897
Revenues Over (Under) Expenditures	112,748
Total Fund Balance at Previous Fiscal Year-end	786,434
Estimated Total Fund Balance at Current June 30th	**$ 899,182**

The next step is to determine what portion of the Estimated Total Fund Balance at Current June 30th that the governing body could appropriate, if necessary. All governing body requested reservations should be included in this calculation. Note that this is not the same calculation as the calculation of fund balance available for appropriation under G.S. 159-08 but one that considers the requirements of G.S. 159-08 and is more restrictive.

In this example, assume that, in addition to other required reservations, the governing body has adopted a new policy designating two months of next year's budget to be set aside for working capital to supplement cash flow from July until tax revenues are received which is usually in December. The unit of government has been directed by governing body to obtain this goal over a 5-year period. Until this goal is reached the unit has been instructed not to appropriate fund balance.

Exhibit G - Estimation of Fund Balance Available For Appropriation

The portion of the estimated total fund balance at current June 30th that the governing body could appropriate would be calculated as follows:

Reserve for State Statute [1]	$	248,234
Reserve for Inventories [2]		8,700
Reserve for Encumbrances [3]		40,200
Designated for Subsequent Years Budget [4]		-
Designated for Working Capital [5]		660,142
Undesignated (unattained working capital target) [6]		(58,094)
Estimated Total Fund Balance at Current June 30th	$	899,182

Notes:

[1] The reserve for state statute would be calculated as required by of G.S. 159-8. A worksheet for calculating fund balance available is provided on the State Treasurer's website, www.nctreasurer.com. Select "Divisions" followed by "Local Fiscal Management" then select "Other Worksheets and Resources".

[2,3] The reserves for inventories and encumbrances should be estimated based on the best available information and compared to the prior year-end amounts for reasonableness.

[4] Remember that fund balance should not be used to fund operating expenditures.

[5] The governing body has adopted a new policy designating two months of next year's budget to be set aside for working capital to aid cash flow from July until tax revenues come in which is usually in December. The unit of government has been directed by governing body to obtain this goal over a five-year period. Until this goal is reached the unit has been instructed not to appropriate fund balance. This amount represents total expenditures budgeted for the next year divided by 12 times 2.

[6] The amount that unit has available after all legal reserves, designations and the working capital target has been considered. For financial statement presentation a negative undesignated amount would not be shown. The ($58,094) would reduce the $660,142. Therefore the amount designated for working capital would be $602,048 and the undesignated amount would be zero.

Based on this calculation the budget office would be advised that none of fund balance was available for them to budget and in fact the governing body's working capital policy was not being met.

Upon receipt of the audited financial statements, the finance officer should compare the actual year-end fund balance and actual fund balance available to the estimated amounts. From this comparison, it can be determined if a budget amendment is required. An amendment would be required if the unit's appropriated fund balance exceeded the amount allowed because the actual fund balance was significantly lower than the estimated amount. Such an analysis should improve the ability to estimate fund balance in the future.

Exhibit H – Sample Interim Budget Ordinance

Exhibit H – Sample Interim Budget Ordinance

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Exhibit H – Sample Interim Budget Ordinance

Interim Budget Ordinance for County of Carolina

BE IT ORDAINED by the Board of Commissioners of County of Carolina, 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, 20X2 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		3,451,501
	Total appropriations	$ 6,944,588

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, 20X2 in accordance with the chart of accounts heretofore established for this County:

Public safety - Fire District 1		$ 817
Public safety - Fire District 2		917
	Total appropriations	$ 1,734

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, 20X2 in accordance with the chart of accounts heretofore established for this County:

General government	$ 48,792

Section 4: The following amounts are hereby appropriated in the Landfill Fund for the operation of the county landfill for the month of July, 20X2 in accordance with the chart of accounts heretofore established for this County:

Landfill administration		$ 2,083
Landfill operations		12,333
	Total appropriations	$ 14,416

Exhibit H – Sample Interim Budget Ordinance

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, 20X2 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		467
	Total appropriations	$ 43,331

Section 6: The County Manager or a designee is hereby authorized to transfer appropriations as contained herein under the following conditions:

a. Transfers between line item expenditures within a department without limitation and without a report being required. These changes must not result in increases in recurring obligations such as salaries.

b. Transfers up to $1,000 between departments, including contingency appropriations, within the same fund and must make an official report on such transfers at the next regular meeting of the Board of Commissioners.

Section 7: The County Manager or a designee 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, 20X2

Exhibit H – Sample Interim Budget Ordinance

Assumptions and Comments regarding Interim Budget Ordinance

1. This interim budget ordinance has been derived from the sample annual budget ordinance found in Exhibit A. 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 only for the month of July and that the amounts included represent appropriations for salaries, wages and the usual and ordinary operating expenses as required by G.S. 159-16. For a discussion of the requirements related to interim budgets, see Kara Millonzi's post on UNC School of Government Coates' Canons: Interim Budget, June 27, 2014.
2. It is further assumed that no debt service payments are required 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 expenditure or expense, no appropriations for capital outlays are included because it is believed that the statute's intent was to exclude them from 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 statute addresses only appropriations. Therefore, no amounts for revenues or appropriated fund balance are used to offset appropriations. **However, the unit must identify financial resources to 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, adjustments may be necessary as some usual operating expenses, such as utilities, may have increased. If so, appropriations should be increased accordingly to reflect the increased costs. Other reasons for 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 of activity. 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 managed 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 until the annual budget ordinance is adopted.

Exhibit H – Sample Interim Budget Ordinance

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 the possibility of confusion.
8. Special arrangements may be needed for some funds, e.g. fire district funds, 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 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 County Manager has been given some limited authority to modify appropriations without the prior approval of the governing board.

Exhibit I – Capital Improvement Program Documentation

Exhibit I – Capital Improvement Program Documentation

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Exhibit I – Capital Improvement Program Documentation

City of Dogwood NC

Instructions and Required Documentation

Introduction

The Capital Improvement Program (CIP) for the City of Dogwood NC. (the "City") 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.

It also presents:

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 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 fiscal year just ended is updated with actual results, the next 5 years are updated as needed, and an additional year is added 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 newly proposed projects. A test of the effectiveness of the capital planning process is the orderly manner in which projects are planned, scheduled, and finally budgeted year-by-year.

Advance planning of capital improvements benefits the City and it citizens in a number of ways, including:

1. Allows management to establish priorities, processes, master planning from 10 to 30 years and eliminate or significantly reduce unplanned projects.
2. Maintenance of capital facilities planned, budgeted and replaced in order to maximize useful life and safety of facilities.
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.

Exhibit I – Capital Improvement Program Documentation

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 costs 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 or 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.

Schedule

The schedule for preparation is as follows:

20X2	
November 27	Distribution of CIP Instruction Manual and Required Documentation.
December 27	**Deadline for submission to the Budget Office all new or revised capital improvement projects requests.**
20X3	
January 27	Budget Office finalizes review of documents for completeness
February 20	Manager, Budget Office, Construction Department and various other Departments meet to discuss project priorities

Definition Of Terms

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

Capital Assets are defined in GASBS No. 34, Paragraph 19 to include "…land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, …infrastructure, and all other tangible or intangible assets that are <u>used in operations</u> and that have initial useful lives extending beyond a single reporting period."

Capital Improvement Project is a major nonrecurring capital expenditure for the: construction, purchases or major renovation of buildings, utility systems, streets or other physical structures; major automation projects; and purchase of land.

Capitalization Policy Generally, a Capital Improvement Project will have an expected useful life greater than 10 years and an estimated total cost between $25,000 and $250,000 depending on the size and policy of unit. Units with larger operating budgets might decide that projects costing less than $100,000 can be appropriately budgeted in the operating budget. Units with smaller operating budgets might decide that projects costing more than $25,000 might need to be budgeted through the capital improvement program. Other capital

Exhibit I – Capital Improvement Program Documentation

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.

Exhibit I – Capital Improvement Program Documentation

Instructions for Completing Required Documentation

A **Project Ranking** Form must also be prepared to identify all capital projects to be considered. A **Capital Project Request** form and a **Project Cost and Funding** worksheet must be completed for every project that is included in the Project Ranking and that you plan to undertake within the next six years. The forms are available on diskette in Microsoft Word® or Excel® 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® or Excel® is strongly recommended. 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.

Instructions for Capital Project Request Form

Instructions from completing the Capital Project Request form are as follows. Additional documentation should be attached as necessary to fully explain the cost and benefits of the requested project.

Requesting Department: 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. or other brief description to identify the project)

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 requested project that has not been approved.

Project Schedule: Indicate the expected starting and completion dates for the project. Describe the relationship of this project to other proposed or approved projects in the dependencies section.

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 other pertinent information and indicate the useful life of the project. Include maps or other relevant information.

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?

Exhibit I – Capital Improvement Program Documentation

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 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 preparer. 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? Provide a cost estimate for each of the project alternatives listed under the "General Project Information" section of this form.

Exhibit I – Capital Improvement Program Documentation

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. 2009-2010, 2011-2012, etc.).

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.

Dependencies

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. 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.

b. What other projects or plans are dependent on the completion of this project? Explain how the schedule for this project may be related to the timing of other related projects.

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 or specifications complete,
   - Land or right of way acquisition, percent acquired,
   - Construction contracts, percent contracted, and
   - Improvements or development complete.

Exhibit I – Capital Improvement Program Documentation

Project Ranking

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

Requesting Agency:

Rank	Project Description	Expected Cost
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
	Total Cost	

Exhibit I – Capital Improvement Program Documentation

Capital Project Request

Requesting Department: ______________________________

Project Title: ______________________________

Project Status: [ ] New Project **Project Rank:** ____________

[ ] Previously Approved [ ] Previously Requested, Not Approved

Expected Start Date: ____________ **Expected Completion Date:** ____________

Project Description:
(Include location, maps, etc. as applicable to clearly describe the project. Attach additional pages as necessary.)

Project Justification:

General Project Information:

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

Exhibit I – Capital Improvement Program Documentation

Requesting Department: ____________________

Project Title: ____________________

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

Who will this project serve?

What are alternatives to this project?

What are the consequences if this project is not approved?

Cost Analysis:

Attach the Budget Appropriation and Financing Plan worksheet and the Operating Statement Impact worksheet. Provide any additional information necessary to understand the cost and operating impact of this project. Include all costs.

Who prepared the cost estimates?

Exhibit I – Capital Improvement Program Documentation

Requesting Department: ______________________

Project Title: ______________________

What is the potential for cost escalation of time?

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

What are cost options and alternatives?

Fund Sources:

Indicate for each funding source included on the Budget Appropriation and Financing Plan worksheet, whether it is secure, or whether it is subject to an approval process, adjustment or cancellation?

Other Considerations:

Are there any other plans, projects or other requirements that must be completed prior to starting this project? If so, describe.

Exhibit I – Capital Improvement Program Documentation

Requesting Department: ______________________________

Project Title: ______________________________

What other projects or plans are dependent on the completion of this project?

If this is not a new project, describe the current status of the project.

Additional comments.

Exhibit I – Capital Improvement Program Documentation

Project Financial Analysis

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 or design	Land or right of way acquisition	Contingency
Construction	Equipment or furnishings	Other

If an expense is listed under the "Other" category, please describe the other expenses.

Please keep in mind that the **Appropriation Plan** section calls for you to establish an authorization or appropriation schedule and not a "spending plan". In most cases, if a project is scheduled to begin in FY 99-00, then the total budget should be entered 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 Spending 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, 20X1. 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 the fiscal year ending June 30, 20X2.

Whether funds are appropriated in the fiscal year ending June 30, 20X2 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 expected cost of an approved project has increased, an additional appropriation should be made to authorize the additional expenditures.

If the project will be completed after the fiscal year ending June 30, 20X2, 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** section outlines the funding sources and resource authorizations necessary to fully finance the appropriation plan. Total resource authorizations must match

Exhibit I – Capital Improvement Program Documentation

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.

Spending Plan

The budget **Spending Plan** section estimates the actual cash disbursements that will be required for the project expenditures during each year of the plan. Estimates on actual capital spending are used for cash management, compliance with federal regulations regarding arbitrage, and compliance with grantor regulations. 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
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
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 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.

Exhibit I – Capital Improvement Program Documentation

Project Title: ______________________________

Start Date: ______________ **Completion Date:** ______________

Appropriation Plan	Prior Years	Current Year 20X2	20X3	20X4	20X5	20X6 through Completion
Land or Easement Acquisition ….	---	---	---	---	---	---
Planning & Design ……………….	---	---	---	---	---	---
Construction ……………………….	---	---	---	---	---	---
Equipment & Furnishings ………	---	---	---	---	---	---
Other Expenditures:						
______________	---	---	---	---	---	---
______________	---	---	---	---	---	---
Contingency ……………………….	---	---	---	---	---	---
Total Expenditures	---	---	---	---	---	---

Financing Plan	Prior Years	Current Year 20X2	20X3	20X4	20X5	20X6 through Completion
Federal Grants …………………….	---	---	---	---	---	---
State Grants ……………………….	---	---	---	---	---	---
General Obligation Debt …………	---	---	---	---	---	---
Revenue Bonds …………………..	---	---	---	---	---	---
Other Debt Obligations ………….	---	---	---	---	---	---
Other Funding Sources:						
______________	---	---	---	---	---	---
Transfers (Indicate source) ………	---	---	---	---	---	---
Total Funding Sources	---	---	---	---	---	---

Spending Plan	Prior Years	Current Year 20X2	20X3	20X4	20X5	20X6 through Completion
Expected Cash Disbursements ….	---	---	---	---	---	---

Impact on Operations	Prior Years	Current Year 20X2	20X3	20X4	20X5	20X6 through Completion
Projected Revenues						
User Fees ………………………..	---	---	---	---	---	---
Federal and State Grants ………..	---	---	---	---	---	---
Other Projected Revenues:						
______________	---	---	---	---	---	---
Total Projected Revenues	---	---	---	---	---	---
Projected Expenses						
Salaries and Related Expenses ….	---	---	---	---	---	---
Utilities ……………………….	---	---	---	---	---	---
Repairs and Maintenance ………..	---	---	---	---	---	---
Other Projected Expenses:						
______________	---	---	---	---	---	---
______________	---	---	---	---	---	---
Total Projected Expenses	---	---	---	---	---	---
Revenues less Expenses	---	---	---	---	---	---

Exhibit J – Sample Resolution Adopting a Fund Balance Policy

Exhibit J – Sample Resolution Adopting a Fund Balance Policy

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Exhibit J – Sample Resolution Adopting a Fund Balance Policy

[Unit Full Name]

Resolution on the Review, Approval and Adoption of a Fund Balance Policy

WHEREAS, the [Governing Body] of the [Unit Full Name (hereafter the "[Unit Type]") understands the importance of maintaining the appropriate level of Fund Balance Available for Appropriation (hereafter "Fund Balance Available"), as defined in North Carolina General Statute 159-8;

WHEREAS, the [Governing Body] recognizes that a stable and sufficient level of Fund Balance Available provides an important reserve for the [Unit Type] that can provide cash flow during periods of delayed or declining revenues, that can be used for emergencies and unforeseen expenditures, and that can be used to take advantage of unexpected opportunities;

WHEREAS, the Finance Officer has prepared and presented to the [Governing Body] an analysis of the operating characteristics of the [Unit Type], the diversity of its tax base, the reliability of non-property tax revenue sources, its working capital needs, the impact on its bond ratings, the state and local economic outlooks, and its emergency and disaster risks;

WHEREAS, for the fiscal year ended June 30, [Insert most recent year end for which statistics available] the Fund Balance Available for the City was [Insert percentage] of General Fund expenditures and the average Fund Balance Available for its peer group was [Insert percentage from LGC County and Municipal Financial Information];

WHEREAS, the Local Government Commission recommends that the Fund Balance Available be an amount not less than eight percent (8%) of General Fund Expenditures plus Transfers Out less Amounts for Debt Issued as presented in the most recent audited financial statements, which approximates expenditures for one month; and

WHEREAS, the [Governing Body] establishes the following goals regarding maintaining an adequate and appropriate amount of Fund Balance Available in the General Fund.

NOW, THEREFORE, BE IT RESOLVED, by the [Governing Body] of the [Unit Full Name] that:

Section 1. The target level of Fund Balance Available that the [Unit Type] strives to maintain is an amount not less than [Insert percentage] of General Fund Expenditures plus Transfers Out less Amounts for Debt Issued as presented in the most recent audited financial statements.

Section 2. The Finance Officer shall report annually to the [Governing Body] in the budget message the projected level of Fund Balance Available in dollars and as a percentage of Budgeted General Fund Expenditures plus Budgeted Transfers Out (excluding financed capital outlay recorded in the General Fund) less Amounts Budgeted for Debt Issued that is anticipated from adoption of the proposed budget.

Exhibit J – Sample Resolution Adopting a Fund Balance Policy

Section 3. Once the [Unit Type] achieves its goal for Fund Balance Available, the fund balance amount exceeding the targeted amount may be appropriated for any one-time expenditure. The Fund Balance Available amount exceeding the targeted amount should not be considered a recurring source of funds and should only be appropriated for non-recurring expenditures.

Section 4. This resolution shall take effect immediately upon its passage.

Upon motion of _______________, and seconded by __________________, the foregoing Resolution was passed by the following vote:

Ayes: ____________________________
____
____

Nays: None

Abstentions: None

****

I, ____________________, Clerk of the [Governing Body] of the City of Dogwood NC, do hereby certify that the foregoing resolution is a true and exact copy of the "**Resolution on the Review, Approval and Adoption of a Fund Balance Policy**" duly adopted by the [Governing Body] of the City at the regular [special] meeting thereof duly called and held on ____________, a quorum being present.

WITNESS my hand at __________, N.C., this _____ day of ________, 20__.

____
Clerk

Notes to Preparer:

Available fund balance requirements vary among different types of governments. The majority of property taxes for cities and counties are collected in December and January which require significant cash flow needs during the summer and fall months. Counties can also have significant human services expenditures for which they are reimbursed, which increase their cash flow requirements. Other units of government have more stable cash inflows that tend to match their expenditure outflow.

The general fund should not be used to account for any material capital outlay that is purchased or constructed with the use of bonds or other types of financing. These revenues and expenditures should be accounted for in a capital project fund. Calculations of Available Fund Balance will most likely be distorted by any capital project account that is recorded in the General Fund. Financing of small office equipment such as copiers are normally not material; however the financing of a fire truck could be material to the general fund. All

Exhibit J – Sample Resolution Adopting a Fund Balance Policy

material financed capital outlay recorded in the general fund should be excluded from calculations of Available Fund Balance.

The above policy does not meet GASB Statement No. 54 definition of Stabilization Arrangements.

Exhibit J – Sample Resolution Adopting a Fund Balance Policy

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End of Section 10: Budgeting