

TOWN OF CARY BUDGET POLICIES UNDER THE NORTH CAROLINA LOCAL GOVERNMENT BUDGET AND FISCAL CONTROL ACT

The Local Government Budget and Fiscal Control Act (LGBFCA) governs all agencies of local government in the state of North Carolina. The LGBFCA spells out how all monies received or expended by local governments must be budgeted, disbursed, and accounted for. It requires that certain types of funds be maintained depending on the functions and activities performed by local governments and how those functions and activities are financed. The Town budgets and accounts for its revenues and expenditures in accordance with the LGBFCA, and maintains its various funds in compliance with this law.

GENERAL PROVISIONS:

The Budget Officer in Cary is the Town Manager, who is designated as such by statute. The Manager is responsible for ensuring that a balanced budget ordinance is adopted by the governing board prior to the beginning of each new fiscal year on July 1st. This budget ordinance may summarize budget figures, grouping them by departments or categories.

The LGBFCA also permits transactions involving capital or grant projects or accounted for in an internal service fund to proceed without budget ordinance authorization. Capital project expenditures in Cary are budgeted in a separate Capital Improvements Budget and Capital Improvements Plan, and are summarized in the Annual Operating Budget document. All capital projects are authorized as project ordinances, which means that appropriations carry over from year to year until the project has been completed.

The Town does show its Fleet Management Internal Service Fund as a Financial Plan in its Annual Operating Budget Ordinance for the sake of convenience. The expenditures for this internal service fund are not, however, included in total expenditure figures in the ordinance, as they would be counted twice.

The Annual Operating Budget Ordinance must balance exactly, as must each fund contained within it. The Town balances its annual budget by showing surpluses as an appropriation to fund balance and deficits as appropriations from fund balance. The LGBFCA permits appropriations only of that portion of fund balance which represents cash and cash equivalents less current claims against that cash. The statutory formula is "cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts."

The LGBFCA mandates that local governments make certain appropriations, while other statutes and regulations require that certain programs be supported at a minimum level.

1. Debt Service: The full amount estimated to be required for debt service, both principal and interest, during the budget year must be appropriated in the budget.
2. Deficits: The full amount of any deficit in each fund must be appropriated.
3. Continuing Contracts: Sufficient funding to pay obligations during the fiscal year must be appropriated.
4. Other Statutes and Regulations: Other statutes require local governments, especially counties, to fund social services, health, and education programs. The Town of Cary does not have responsibilities in any of these areas. It does have responsibilities under statutes regulating levels of sewage treatment services.

INTERFUND TRANSFERS:

The LGBFCA recognizes the appropriateness of interfund transfers, and some special types of funds show a transfer from the General Fund as their primary source of revenue. The Town of Cary has several such funds, including the Police Separation Allowance Fund, the Self-Insurance Fund, and the Employee Housing Loan Fund. The Act prohibits some transfers where funds are earmarked for specific programs or services. For example, state street aid funds (Powell Bill), shown in the Capital Improvements Budget revenues, must be used for street-related expenses.

The proceeds of bond issues in a capital project fund account must be used for the purpose for which the bonds were issued or be appropriated into a capital reserve or debt service fund.

The LGBFCA limits appropriations from enterprise funds into other funds unless the total of all other appropriations in the fund equal or exceed the amount that will be required to meet operating expenses, capital outlay, and debt service obligations during the fiscal year. The Act does not, however, require that depreciation expenses must be met by revenues before an interfund transfer may be made. State statutes direct that accounts be maintained during the year on a modified accrual basis, which does not require depreciation.

MISCELLANEOUS PROVISIONS:

Contingency Appropriations: A contingency appropriation shall not exceed five percent (5%) of the total of all other appropriations in that same fund.

Property Tax Estimates: The percentage collection of property taxes shown in the budget must not be greater than the percentage of the levy realized in cash as of June 30 of the preceding fiscal year. This ensures a conservative estimate of property tax revenues.

Revenue Estimates: The LGBFCA states that estimated revenues shall include only those reasonably expected to be realized during the fiscal year.

BUDGET PREPARATION:

The LGBFCA provides a general framework for budget preparation, setting a basic calendar as follows:

By April 30: Departmental Requests to Budget Officer

By June 1: Budget Submitted to Governing Board

By July 1: Budget Ordinance Adopted

The General Statutes provide that by April 30, the Budget Officer is to have in hand:

- 1.) Budget requests from departments for the upcoming year;
- 2.) Revenue estimates for each department for the upcoming year;
- 3.) Actual and estimated expenditures for each category of expenditure in the budget ordinance for the immediately prior and current fiscal years;
- 4.) Actual and estimated amounts realized for each source of revenue for the immediately prior and current fiscal years;
- 5.) Any other information the Budget Officer requests from the departments.

The Budget Officer prescribes the form and format of the budget, along with the governing board. The board should expect the Budget Officer to review departmental requests and submit a balanced budget, while showing both amounts requested by departments and amounts recommended by the Budget Officer. The law does not address the procedures the Budget Officer is to use in developing the budget, and each unit is free to utilize a process which best suits its needs. In Cary, the Budget Officer and staff meet with departments and discuss their budget requests and make recommendations afterwards.

The law urges that the budget be presented to the governing board at a public meeting, and that the Budget Officer provide a summary explanation, often in the form of a budget message, at this time. State statute requires that a budget message be included in the proposed budget. It should 1) contain a concise explanation of the governmental goals fixed by the budget for the fiscal year, 2) explain important features of the activities anticipated in the budget, 3) set forth the reasons for stated changes from the previous year in program goals, programs, and appropriation levels, and 4) explain any major changes in fiscal policy.

At the time the budget is submitted to the board, a copy must be filed with the clerk to the board for public inspection. The law also requires the clerk to make a copy of the budget available to the media. A public hearing must be held on the proposed budget between the time of its submission and adoption, notice of which is to be published in the newspaper. At least ten days must pass between the submission and adoption of the budget.

BUDGET REVIEW AND ADOPTION:

By law, the board has complete discretion over the content of the budget ordinance and the fiscal policies which it represents. In Cary, Council conducts a budget worksession or worksessions at which time it reviews the proposed budget and makes any changes or recommendations. The state's open meeting law applies to the budget process, and all meetings at which the board deliberates or takes action on the budget are open to the public.

Once reviewed, the law provides that the budget ordinance may be adopted at any regular or special meeting of the board by a majority of those present and voting if a quorum is present.

By law, the budget ordinance must contain 1) appropriations, 2) estimated revenues, and 3) the property tax levy. Typically, however, the ordinance goes into greater detail by setting out expenditures by department, function or category water and sewer rates and other items subject to change annually. Once the budget ordinance is adopted, it must be filed with the Budget Officer, Finance Officer, and Clerk within five days.

The Town of Cary's operating budget ordinance displays expenditures at the function level. This means that intra-functional budget transfers do not need Council approval. Inter-functional budget transfers and budget amendments do, require approval by Council. The property tax levy and governing board salaries are the only items in the budget ordinance that may not be amended during the year.

TOWN OF CARY FINANCIAL POLICY

The budget-related portions of the Town of Cary's Financial Policies are designed to complement the North Carolina Local Government Budget and Fiscal Control Act (LGBFCA), as well as other policies recommended by the Local Government Commission. The two sections of the Town's Financial Policy regarding budgeting (the *Operating Budget* and *Capital Improvements Policy* sections) are included below. Other sections of the policy, not presented in this budget document, include: Accounting / Financial Reporting, Cash Management, Purchasing & Contracting, and Utility Billing & Collections. The entire Financial Policy was updated and approved by Town Council on June 13, 2002.

I. OBJECTIVES

- A. To link long-term financial planning with short-term daily operations.
- B. To maintain the Town of Cary's stable financial position.
- C. To ensure that Council's adopted policies are implemented in an efficient and effective manner.
- D. To protect the Town from emergency fiscal crises by ensuring the maintenance of service even in the event of an unforeseen occurrence.
- E. To secure the highest possible credit and bond ratings by meeting or exceeding the requirements of bond rating agencies through sound, conservative financial decision making.

II. OPERATING BUDGET

It is the Town's policy that the operating budget be prepared in accordance with Generally Accepted Accounting Principles and according to the standards necessary to achieve the GFOA Distinguished Budget Presentation Award. To receive the award, the Town must publish a comprehensive and professionally prepared budget report that serves as a policy document, an operations guide, a financial plan, and a communications tool.

A. Revenue Policy

The Town seeks to implement a diversified taxing policy that will ensure reasonable stability for operation at continuous service levels, but that will provide elasticity necessary for responding quickly to increased service demands due to new development. Revenue management includes within its focus an ongoing process for reviewing and analyzing each revenue source to ensure that proceeds from each source are at an optimum level. Every attempt will be made to project revenues within 5% of final actual results, and the projections will be based on historical trends, growth patterns, and the economy. To meet these objectives the Town observes the following guidelines:

1. Ad Valorem Tax

As provided by the North Carolina Local Budget and Fiscal Control Act, estimated revenue from the Ad Valorem Tax levy will be budgeted as follows:

- a. Assessed valuation will be estimated based on historical trends, growth patterns, and anticipated construction.
- b. The estimated percentage of collection will not exceed the percentage of the levy actually realized in cash as of June 30 during the preceding fiscal year, in accordance with state law.
- c. The tax rate will be set each year based on the cost of providing general governmental services and paying debt service. Consideration will be given to future net revenue requirements for capital improvement project operational expenditure impacts and programmed debt service.

2. User Fees

The Town sets fees that will maximize user charges in lieu of Ad Valorem Taxes for services that can be individually identified and where the costs are directly related to the level of service. This objective is in keeping with the Council's goal that growth should pay for itself and not place a burden on current residents who do not use the service. Emphasis of user charges over Ad Valorem Taxes results in the following benefits:

- a. User charges are paid by all users, including those exempt from property taxes.
- b. User charges avoid subsidization in instances where the service is not being provided to the general public.
- c. User charges are a means of rationing the provision of certain services.
- d. User charges for certain services can be justified on the basis of equity and efficiency, by producing information on the demand level for services and by helping to make the connection between the amount paid and the service received.

3. Grant Funding

Grant funding may be used for a variety of purposes including:

- a. Current Town operations.
- b. A departmental long-range plan.
- c. A capital project identified in the Capital Improvement Budget/Plan.
- d. Regulatory requirements.
- e. Opportunities to address the mission and goals of the Town.

Staff will pursue opportunities for grant funding. Application will be made after a grant is evaluated for consistency with Council goals and compatibility with Town programs and objectives. All grants pursued by the staff of the Town of Cary will be presented to Council for consideration before application is made. Any deviation from this policy must be granted by Finance and Administration/Budget. Any awarded funds will be accepted only after Council review and action.

4. Utility Rates

Utility rates will be reviewed annually considering net revenue requirements, realistic sales forecasts, contractual obligations including bond covenants, and utility conservation goals. Revenue requirements may include funds programmed for rate stabilization, utility capital projects, and reimbursement of indirect costs to the General Fund. Rates will be structured to meet conservation program goals with consideration for customer acceptance and reasonable efficiency in utility billing and collection administration.

5. Other Revenue

All other revenue will be programmed through the annual budget process to meet Town Council's goals and objectives.

B. Expenditure Policy

1. Budget Management

Expenditure budgets are reviewed by staff, the Town Manager, and Town Council prior to adoption and are continually monitored throughout the budget year. Budgeted funds will only be spent for the categorical purposes for which they were intended. The annual operating budget ordinance defines staff authorization for operating budget adjustments. No appropriations of the proceeds of a debt instrument will be made except for the purpose for which such debt instrument was issued. Donations will be spent only toward the intent for which they were given.

2. Fiscal Management

Current operating expenditures will not exceed current operating revenues.

3. Continuing Contracts

For continuing contracts, funds will be appropriated in the annual budget ordinance to meet current year obligations arising under the contract in accordance with G.S. 160A-17.

4. Payroll

Payroll will be in accordance with the requirements of the Fair Labor Standards Act. Overtime and benefit payments will be made in accordance with the Town's Personnel Ordinance.

5. Non-Profit Funding

The Town will review the financial position of nonprofit corporations or organizations receiving funding to determine the entity's ability to carry out the intended purpose for which Town funding was granted. For organizations receiving \$1,000 or more in any fiscal year, the Town may require the nonprofit to have an audit performed for the fiscal year in which the funds are received and to file a copy of the audit with the Town.

C. Reserve Policy

1. Reserve for State Statute

In accordance with state statute, appropriated fund balance in any fund will not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts.

2. Unreserved Fund Balance

The Town will maintain an unallocated fund balance in operating funds. These funds will be used to avoid cash-flow interruptions, generate interest income, eliminate the need for short-term borrowing, assist in maintaining an investment-grade bond rating, provide funding flexibility for unanticipated needs and opportunities, and sustain operations during unanticipated emergencies and disasters. The level of reserve will be based on anticipated future funding needs, historical trends, growth patterns, the economy, and contractual obligations, including bond covenants.

D. Interfund Transfers

1. The Town may transfer cash from enterprise funds to general government funds only after operating expenses, capital outlay, and debt service obligations of the enterprise have been met.
2. Interfund transfers are allowed for the allocation of direct or indirect costs of services rendered by one fund to another.
3. The Town will strive to ensure that the enterprise funds are financially self sufficient.

III. CAPITAL IMPROVEMENT POLICY

A. Capital Improvement Plan

1. The Town will update and readopt annually an eleven-year capital improvement plan (CIP), including the upcoming annual capital improvement budget (CIB) and a ten-year projection of capital needs and expenditures that details the estimated cost, description, and anticipated funding sources for capital projects. The plan will include costs that have been estimated, including consideration for inflation. The inflation rate will be determined annually in the budget process and will be disclosed in the capital budget report.
2. The first year of the eleven-year CIP will be the basis of formal fiscal year appropriations during the annual budget process. If new project needs arise during the year, a budget amendment identifying both the funding sources and project appropriations will be utilized to provide formal budgetary authority for the subject projects. The Capital Improvement Budget and Plan will generally address those capital assets with a value of more than \$25,000 and a useful life of over three (3) years.
3. The Town will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.
4. Restricted revenue sources will be utilized whenever possible before unrestricted sources.

B. Capital Formation

1. Financing Sources

The Town acknowledges pay-as-you-go financing as a significant capital financing source but will ultimately determine the most appropriate financing structure for each capital project on an individual basis after examining all relevant factors of the project. Fund balances in excess of aforementioned LGC guidelines may be used as a capital source for pay-as-you-go financing.

2. Impact Fees

Impact Fees will be calculated based on the Capital Improvement Plan. Impact fee revenues will be used as one capital source for pay-as-you-go financing.

3. Transfers

Capital funding provided by transfers from another fund will be programmed to specific capital projects or programs.

C. Debt Management

1. Use of Debt

Debt will be used to finance large projects that provide value to future citizens. Generally, only construction and equipment acquisition costs will be debt funded. Land acquisition and design costs will not be funded by debt.

2. Term

Capital projects financed through the issuance of bonds will be financed for a period not to exceed the expected useful life of the project.

3. Statutory Limits

The general obligation debt of the Town will not exceed the North Carolina statutory limit.

4. Debt Capacity

The Town will strive to maintain debt funding flexibility to maximize capacity for both identified and unanticipated capital needs and opportunities.

5. Capitalized Interest

Interest expenses will be capitalized only for facilities of enterprise activities and will be strictly limited to those expenses incurred during construction of the facilities.

6. Debt Issuance

The Town will seek the best financing type, debt structure, and timeframe for each financing need based on the flexibility to meet the project needs, timing, tax or rate payer equity, and lowest interest cost.

7. Bond Ratings

The Town will continue to strive for the highest possible bond rating to minimize the Town's interest expenses.