

# Appendix A: Chatham County Financial and Budgetary Policies

**Objective:** Chatham County government exists to meet the needs of residents through the services the County is mandated to provide or has elected to provide. In order to meet these needs, the County must maintain its financial integrity. In addition, the County is constantly confronted with requests for new and enhanced services from a growing and diverse population. The County's Financial and Budgetary Policies are intended to maintain and improve the County's financial condition thereby preserving our ability to meet future needs while giving County leaders a framework for balancing increased service demands and financial position.

## Budget Policies

**Objective:** The County will manage its annual budget to meet its legal and debt obligations, ensure adequate funding of current service levels, meet the priorities of the Board of Commissioners, maintain the County's financial condition, and keep property tax increases to a minimum. The County shall operate under an annual balanced budget ordinance whereby the sum of net revenues and appropriated fund balances equals the expenditure appropriations. The *Local Government Budget and Fiscal Control Act* (G.S. 159-8) requires a balanced budget ordinance from all local governments.

**New or increased services:** The County should ensure adequate funding of critical services before funding new or enhanced services.

**Mid-year appropriations:** All agencies supported by the County must function within the resources made available to them through the annual budget. The County will consider requests for new or expanded programs during the course of the regular budget process. Only in extreme circumstances will such requests be considered outside of the budget process.

**Use of one-time revenues:** One-time revenues should not support ongoing personnel and operating costs. Use of one-time revenues is appropriate for capital outlay, debt retirement, contribution to capital reserve, and other non-recurring expenses. Significant proceeds from the sale of single item surplus capital items will go into the County's general capital reserve, unless proceeds are otherwise restricted.

**Funding-of Nonprofit Agencies:** The County will follow a fair process for funding nonprofits that ensures transparency, accountability, consistency, and adherence to best practices, as described in the Chatham County Nonprofit Agency Funding Policy.

**Grants:** The County will pursue federal, state, and private grants to enhance services to County residents. However, the County will strictly limit its financial support of grant-funded programs to avoid commitments, which continue beyond funding availability. The County will not continue programs after grants have expired, except as expressly approved by the Board of Commissioners as part of the annual budget process. The grant approval process will proceed as follows:

- If a grant does not require any County match, either cash or in-kind, the funder does not expect the County to continue to fund a position or a program after the grant, **and the grant is for \$100,000 or less**, then the proposal can be reviewed and approved by staff. However, the County Manager may choose to present a grant proposal to the Board for approval, if he/she feels that it is appropriate.
- If the grant requires a County match, either cash or in-kind, the funder expects the County to continue to fund a position or program after the grant is complete, **or the grant is for more than \$100,000**, then the grant application must be submitted to the Board of Commissioners for approval.
- For grants that require Board of Commissioner approval, but will not be complete two weeks prior to the meeting when the agenda must be completed, the Manager's Office can authorize the application with prior notice to the Chair and Vice Chair and report to the Board of Commissioners at their next meeting. If the

Board of Commissioners does not approve the grant proposal, the funder will be notified that the County chooses to withdraw the application.

**New positions:** New positions for existing programs and services should be added when there is no other viable option. Alternatives, such as contracting, technology, and reassignment of duties should be fully explored and documented before new positions are funded.

**Level of budgeting:** In order to tie costs to specific services, departments shall submit budgets for each of their divisions or program areas. Department heads are authorized to transfer operating funds between their divisions without prior approval. Transfers for personnel and capital outlay must be approved by the Budget Officer. The County shall adopt budgets at the department level. Commissioners reserve the right to review and/or adopt budgets at a greater level of detail.

**Justification for funding:** Departments and agencies requesting funding from the County should justify their requests in terms of maintaining or increasing service levels. Departments should measure their performance in key service areas and periodically compare their performance to other jurisdictions to discover efficiencies and develop best management practices.

**Contingency funds:** Departments shall not include contingency funds in their respective budgets. The County shall include a general contingency fund in its annual budget. The amount of the contingency fund shall not exceed one percent of the annual budget.

**Capital Outlay funds:** Departments shall encumber all approved capital outlay funds by December 31<sup>st</sup> of the budgeted fiscal year.

**Budget Officer:** The County Manager serves as the Budget Officer. He is authorized to perform the following functions or delegate them:

- Transfer funds within a department without limitation.
- Transfer amounts of up to \$5,000 between departments of the same fund with a memorandum report of such transfers at the next regular meeting of the Board of Commissioners.
- Transfer amounts of up to \$50,000 from contingency to any department with a memorandum report of such transfers at the next regular meeting of the Board of Commissioners. Greater amounts can be made available upon agreement of the Board of Commissioners.
- Transfer, terminate, or create positions, and transfer associated funds, without limitation, provided that actual personnel costs do not exceed budgeted personnel costs and position counts are not increased.
- Employ temporary help from time to time to meet circumstances.
- Execute contracts provided that funds for the contract have been approved as part of the annual budget **or by a project ordinance approved by the Board of Commissioners** and the contract does not exceed the funds appropriated, the contract's term does not exceed three years, all applicable state laws and County policies regarding purchasing are followed, and the contract does not exceed \$100,000.
- Execute change orders provided that the change order is for a project approved as part of the annual budget or by a project ordinance approved by the Board of Commissioners, the change order does not exceed the funds appropriated, **all applicable state laws and County policies regarding purchasing are followed**, and the **amount of the original contract plus the change order does not exceed \$100,000**.

## **Debt policies**

**Objective:** The County will manage its debt obligations to meet demands for capital facilities while striving to maintain or improve the County's current bond rating.

**Types of debt:** The types of debt available to North Carolina county governments include general and limited obligation bonds, certificates of participation (COPs), installment purchase, other leases, revenue bonds, and proceeds from the refunding of general and limited obligation bonds. In general, the County will select the appropriate type of debt given financial circumstances and feasibility.

**When debt is appropriate:** Debt is an important tool for financing capital facilities. Over-reliance on debt, however, is negatively perceived by bond rating agencies. The County should exhaust all possible resources, such as grants and pay-as-you-go funding, before borrowing funds. Debt should only be used for the construction of capital facilities and the purchase of capital assets. In general, the assets should not be recurring capital replacements, such as vehicles. If terms are favorable, however, the County may elect to use debt in this manner. Debt should never be issued to meet recurring operating expenses.

**Terms:** The term of the debt service payments shall not exceed the useful life of the asset purchased through debt.

**Debt limitation:** Debt issuance guidelines and formulas established by the Local Government Commission and rating agencies will be closely monitored and appropriately applied. North Carolina state law permits local governments to issue debt up to eight percent of the total assessed valuation.

**Relationship to operating and capital budgets:** Debt for items meeting the requirements of a capital project shall be requested through the capital improvements program (CIP) process. Other debt requests shall be made through the annual budget process. The annual budget will include sufficient funding to meet the County's debt service obligations.

## **Fees and user charges policies**

**Objective:** The County will set its fees and user charges to recover the costs of services at a predetermined recovery threshold and thereby reduce reliance on property taxes.

**Enterprise funds:** The operating budgets of enterprise funds shall not be subsidized by the general fund and shall be supported wholly by fees generated by the enterprise. To the extent possible, the capital costs of enterprise funds should not be subsidized by the general fund, unless Commissioners identify a compelling need to provide a subsidy.

**Other fees and charges:** The County should charge other fees when it is allowable, when a limited and specific group of beneficiaries can be identified, when it is feasible to charge beneficiaries for the services rendered, and when there is no reason to subsidize the service wholly or in part. To the extent possible, fee levels should be set to recover the full cost of the service provided, unless it is deemed necessary or desirable to subsidize the service.

**Subsidy:** Factors to consider in deciding whether a subsidy is appropriate include the burden on property taxpayers, the degree to which the service benefits a particular segment of the population, whether beneficiaries can pay the fee, and whether the service provides a broader benefit to the community.

**New and increased services:** Part of the decision-making process in establishing new services or increasing service levels should include an analysis of fees and user charges and a desired cost-recovery threshold.

**Review and approval of fees and charges:** As part of the budget process, the County shall annually review the fees and user charges. All changes to the schedule of fees and charges must be approved by the Board of Commissioners.

## **Capital Improvements Program (CIP) policies**

**Objective:** The County will plan for its capital needs at least seven years into the future in order to address needs and to earmark revenues.

**Process:** A seven-year capital improvements plan shall be prepared and updated each year. Departments and agencies shall request items meeting the definition of a capital asset through the County's annual CIP process. Only in extreme circumstances will the County consider items outside the CIP process. Generally, agencies should plan five years ahead for capital improvements and project additions to the CIP should occur in Year 7 of the CIP.

**Relationship to annual budget:** The operating impact of each project shall be identified and incorporated into the annual operating budget.

**Capital project ordinances:** A separate capital project ordinance shall be submitted to the Board of Commissioners for approval for all capital improvements which span more than one fiscal year and cost \$100,000 or more.

## **Revenue and Fund Balance policies**

**Objective:** The County has a revenue spending policy that provides a policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, state funds, local non-county funds, then County funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the County.

**Rollovers:** Grants, programs and donations are budgeted annually if known, or through budget amendments. Unexpended grant funds, program budgets and donations may roll forward to the next budget year if approved by the Board of Commissioners. Unspent grant funds may be rolled forward if the period of performance is still open per the grant agreement. Reimbursement grants or other reimbursement funding are not eligible for roll forward. Donations received in excess of expenditures may be rolled forward for the purposes specified by the donor. Certain program budget may roll forward if justification permits. If approved to roll forward, unspent program budget will only roll forward for 3 years. Department requests to roll forward must be approved by the Finance Officer.

Recurring operational expenses of the County will be funded through recurring revenue sources. Fund balance is considered a one-time revenue. The County shall maintain unassigned fund balance in its general fund equal to or greater than 20 percent of the previous annual operating budget in order to meet emergency obligations, avoid interruptions in cash flow, generate interest income, and maintain an investment-grade bond rating.

**Allowable uses:** Fund balance may be used as appropriate under sound management practices for use of one-time revenues. Use of one-time revenues is appropriate for capital outlay, debt retirement, contribution to capital reserve, and other non-recurring expenses.

**Excess Fund Balance:** Upon completion of the annual audit of County finances, any unassigned fund balance, **after reductions for negative unassigned fund balances of other funds and non-cash adjustments**, above 22 percent of the previous annual operating budget, will be transferred to the Capital Reserve Fund. The Capital Reserve Fund shall be used for one-time capital expenditures. The fund may also be used for prepayment of debt, upon recommendation by the County Finance Officer, to reduce the County's outstanding debt or to pay down debt with high interest rates.

## **Capital Reserves**

**Objective:** The County will strive to fund capital improvements on a pay-as-you-go basis in order to enhance its financial condition and bond rating.

**Annual contribution:** The County shall annually contribute a minimum of one percent of its operating budget to a capital reserve.

## **Cash Management:**

**Objective:** The County shall effectively manage its cash resources in order to maximize interest earnings and minimize loss of principal.

**Cash Receipts:** Departments shall deposit receipts daily as required by law. Departments are responsible for ensuring the security of cash receipts. The Finance Officer is responsible for ensuring funds are deposited into interest bearing accounts.

**Cash Disbursements:** The County's objective is to retain moneys for investments for the longest period of time possible. Disbursements will be made on the contractually agreed date unless earlier payments provide a greater economic benefit to the County. For County checks, one signature will be required. Facsimile signatures will be safely stored and used when appropriate.

**Investment Policy:** County funds will be invested in a prudent and diligent manner with emphasis on safety, liquidity, and yield, in that order. The County will conform to all state and local statutes governing the investment of public funds.

## **Accounting and Financial Reporting**

**Objective:** The County will establish and maintain its accounting system in accordance with the NC Local Government Budget and Fiscal Control Act. All records and reporting will be in accordance with Generally Accepted Accounting Principles. The County will maintain an accounting system which provides internal budgetary and accounting controls designed to provide reasonable assurance regarding both the safeguarding of assets against the loss from unauthorized use or disposition and the reliability of financial information used in the preparation of financial statements and reports.

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**Amended by the Board of Commissioners, xxxxxxxxxxxxxxxx**