

Budgeting in Local Government

Introduction to Local Government Finance
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Objectives

- Present the law that governs local government budgeting in North Carolina
- Conduct a case study on citizen participation
- Discuss the need of capital budgeting in local government
- Present the process of preparing a capital improvement program (CIP)

Pre-Test

- Are local governments required by law to submit a budget message to the governing board along with the proposed budget?
- Are local governments required to publish a revenue-neutral tax rate after revaluation of real property?
- Are local governments required to carry a certain amount of available fund balance by law?
- Can a local government amend its tax levy anytime after it has been adopted?
- Are local governments required by law to adopt a separate capital budget?

Annual balanced budget ordinance

- Each local government shall operate under an annual balanced budget ordinance, which is balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations [G.S. 159-8(a)].

Fund balance

- Appropriated fund balance shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget year [G.S. 159-8(a)].

Budget inclusiveness

- All moneys, except for those accounted for in project ordinances (capital project ordinance or grant project ordinance), trust or agency funds, or internal service funds (financial plan), should be included in the budget ordinance [G.S. 159-8(a)].

Project ordinances

- A local government may authorize and budget for a capital project or a grant project either in its annual budget ordinance or in a project ordinance [159-13.2(b)].
 - A project ordinance covers the life of the project rather than a fiscal year
 - A project ordinance must be balanced
 - A project ordinance shall clearly identify the project, all revenues, and all appropriations

Financial plan

- If a local government operates one or more internal service funds, it need not include such a fund in its budget ordinance. However, at the same time it adopts the budget ordinance, the governing board shall approve a balanced financial plan for each internal service fund [159-13.1(a)].
- A financial plan is balanced when estimated expenditures do not exceed estimated revenues [159-13.1(a)].

Budget officer

- Municipal government
 - In cities having the manager form of government, the manager is the budget officer. In cities without the manager form of government, the governing board may impose the duties of budget officer on any city officer or employee, including the mayor (G.S. 159-9).
- County government
 - In counties having the manager form of government, the manager is the budget officer. In counties without the manager form of government, the governing board may impose the duties of budget officer on the county finance officer or any other employee except the sheriff, or in counties having a population of more than 7,500, the register of deeds (G.S. 159-9).

Fiscal year and legal budget calendar

- The budget ordinance of a local government shall cover a fiscal year beginning July 1 and ending June 30 [G.S. 159-8(b)].
- Legal calendar
 - G.S. 159-10 - Departmental requests to budget officer before April 30 (includes budget requests and revenue estimates)
 - G.S. 159-11(b) - Budget and budget message submitted to governing board not later than June 1
 - G.S. 159-13(a) - Budget ordinance adopted not later than July 1

Budget requests

- The budget request shall be an estimate of the financial requirements of the department for the budget year, and shall be made in such form and detail, with such supporting information and justifications, as the budget officer may prescribe (G.S. 159-10).

Preparation and submission of budget

- Unless the governing board requests an unbalanced budget, the budget officer shall prepare and present, together with a budget message, a balanced budget to the governing board no later than June 1 [G.S. 159-11(a)(b)].

Budget message

- The budget, together with a budget message, shall be submitted to the governing board no later than June 1 [G.S. 159-11(b)].
- The budget message should address:
 - Organizational goals
 - Important features of the budget
 - Major changes in fiscal policy
 - Changes from the previous year in program goals and appropriations levels.

Revenue-neutral property tax rate

- In each year in which a general reappraisal of real property has been conducted, the budget officer shall include in the budget, for comparison purposes, a statement of the revenue-neutral property tax rate for the budget [G.S. 159-11(e)].

Filing and publication of the budget

- On the same day that the proposed budget is submitted to the board, a copy is filed with the office of the clerk for public inspection [G.S. 159-12(a)].
- The clerk shall make a copy available to all news media and a statement is published (newspaper of general circulation) that the proposed budget has been submitted to the board, including the time and place of the public hearing [G.S. 159-12(a)].

Adoption of annual budget ordinance

- Before adopting the budget ordinance, the board shall hold a public hearing at which time any persons who wish to be heard on the budget may appear [G.S. 159-12(b)].
- Not earlier than 10 days after the day the budget is presented to the board and not later than July 1, the government board shall adopt a budget ordinance [G.S. 159-13(a)].

Example requirements of budget ordinance

- The full amount estimated by the finance officer to be required for debt service during the budget year shall be appropriated [G.S. 159-13 (b)(1)].
- The full amount of any deficit in each fund shall be appropriated [G.S. 159-13 (b)(2)].
- A contingency appropriation shall not exceed five percent of the total of all other appropriations in the same fund [G.S. 159-13 (b)(3)].
- The estimated percentage of collection of property taxes shall not be greater than the percent of the levy actually realized in cash as of June 30 during the preceding fiscal year [G.S. 159-13 (b)(6)].

Budget ordinance procedures

- Any action with respect to the adoption or amendment of the budget ordinance or any project ordinance may be taken at any regular or special meeting of the governing board by a simple majority of those present and voting, a quorum being present [159-17(1)].
- No action taken with respect to the adoption or amendment of the budget ordinance or any project ordinance need to be published or is subject to any other procedural requirement governing the adoption of ordinances or resolutions by the governing board other than the procedures set out in this article [159-17(2)].

Interim budget

- In case the adoption of the budget ordinance is delayed until after July 1, the government board shall make interim appropriations for the purpose of paying salaries, debt service payments, and the usual ordinary expenses (G.S. 159-16).

Amendments to budget ordinance

- Except as otherwise restricted by law, the governing board may amend the budget ordinance at any time so long as it remains in balance (G.S. 159-15).
- However, no amendment may increase or reduce the property tax levy (tax rate) unless ordered by a court of competent jurisdiction or state agency with authority (G.S. 159-15).
- If after July 1, the local government receives revenues that are substantially more or less than the amount anticipated, the governing board may, before January 1, amend the budget ordinance to change the tax levy (tax rate) (G.S. 159-15).

Key roles: citizens

- Legally, only one public hearing is required before the governing board adopts the budget ordinance [G.S. 159-12(b)].
- Ways to increase citizen involvement:
 - Additional public hearings
 - Budget presentations for neighborhood groups
 - Citizen surveys
 - Citizen review committees

Key roles: governing board

- Except as otherwise provided by law, the government and general management of the city shall be vested in council (G.S. 160A-67).
- The board of commissioners has and shall exercise the responsibility of developing and directing the fiscal policy of the county government under the provisions and procedures of the Local Government Budget and Fiscal Control Act (G.S. 153A-101).

Key roles: county or city manager

- In counties or municipalities with the manager form of government, the manager shall be the budget officer (G.S. 159-9). In other forms of government, the governing board appoints a budget officer.

Key roles: department heads

- Before April 30 of each fiscal year (or an earlier date fixed by the budget officer), each department head shall transmit to the budget officer the budget requests and revenue estimates for his department for the budget year (G.S. 159-10).

Budget case study

- What are the fundamental problems with the citizen review committee?
- How involved is the governing board?
- What is the leadership style of the manager?
- How should the manager proceed from here?

Capital reserve funds

- Any local government may establish and maintain a capital reserve fund for any purposes for which it may issue bonds (G.S. 159-18).
- The resolution or ordinance may be amended from time to time in the same manner in which it was adopted (G.S. 159-19).
- No withdrawal may be authorized for any purpose not specified in the resolution or ordinance establishing the fund or amending it (G.S. 159-22).

Definition of capital asset and capitalization threshold

- A capital asset represents a tangible or an intangible item with a useful life beyond a single reporting period (GFOA, 2001).
- The capitalization threshold is the dollar value at which a government elects to capitalize tangible and intangible assets (GFOA, 2001). The GFOA recommends that the minimum threshold should not be below \$5,000.

Definition of capital budget

- A capital budget contains funding sources and appropriations for capital assets that exceed an established financial threshold. A capital budget is approved by the governing board either in the budget ordinance or in a capital project ordinance.

Definition of capital improvement plan

- A capital improvement program (CIP) is a multiyear planning document for capital assets beyond the capital budget. The capital budget (CB) is often presented to the governing board for approval as part of the CIP.

Capital budget and capital improvement plan

	Year 1 (CB)	Year 2 (CIP)	Year 3 (CIP)	Year 4 (CIP)
Financing				
Bonds	\$10,000,000	0	0	0
Grants	0	2,000,000	2,000,000	2,000,000
Total	10,000,000	2,000,000	2,000,000	2,000,000
Projects				
Parking deck	10,000,000	0	0	0
Streets	0	2,000,000	2,000,000	2,000,000
Total	\$10,000,000	2,000,000	2,000,000	2,000,000

Rationale for capital budgeting

- Policy decisions extend for years
- Capital assets differ from year-to-year
- Spending varies from year-to-year
- Debt financing is often used
- Implementing a capital budget takes time, with a capital project ordinance extending the life of the projects

Step 1: Identify capital assets

- Capital assets that are in need of maintenance or replacement
- Capital assets that support new development
- Capital assets that generate revenue
- Capital assets that support organizational goals
- Capital assets that support efficient and effective service delivery

Step 2: Evaluate capital assets

- Define the objective for the proposed capital asset
- Identify alternatives
- Identify all benefits and costs associated with each alternative
- Forecast the future streams of benefits and costs and present value them
- Select the alternative with the highest net present value

Step 3: Prioritize capital assets

- Experience-based judgment
- Broad categories of need
 - High – essential to community
 - Medium – essential, but can wait
 - Low – not currently essential
- Weighted rating system
 - Legal mandate (10 points)
 - Supports public safety (8 points)
 - Provides maintenance & replacement (5 points)
 - Supports economic development (5 points)
 - Provides for more efficient service (3 points)

Step 4: Identify funding sources

- Pay-as-you-go financing
 - Annual revenues
 - Cash reserves, including capital reserve funds
 - Grants
- Debt financing
 - General obligation bonds
 - Special obligation bonds
 - Revenue bonds
 - Installment financing
 - Tax increment financing

Step 4: Identify funding sources (intergenerational equity)

■ An economic concept that favors debt financing over pay-as-you-financing for capital assets with useful lives that extend over many years. Because future generations are going to benefit from the capital asset, they should help pay for the capital asset rather than prior taxpayers.

Step 5: Impact on operating budget

- Annual debt service
- New positions and operating expenditures
- Tax rate
- Additional revenue
- Savings in maintenance expenditures

Post-test

- Can either a local government or public authority operate on a fiscal year other than July 1–June 30?
- Does the law prevent a local government from holding more than one public hearing before adopting the budget?
- How many days must pass between when the board receives the proposed budget and when it adopts the budget ordinance?
- Can a local government reallocate funds in a capital reserve fund from one project to another project?
- Does a local government have to use a capital project ordinance for authorizing a capital project?
