

## **Budget Policy**

### 1. Background

- a) The County's budget policy addresses the process by which a budget is formulated from departmental requests to Board of Supervisors' adoption, including the adoption of the Five Year Financial Plan, the Capital Improvements Program and other issues presented to the Board of Supervisors during the budget process.
- b) A budget policy also addresses all other aspects of the budget, including the authorization levels for the approval of budget adjustments and review of the budget during the fiscal year.

### 2. Budget Calendar

- a) The following guidelines will be used in establishing the annual budget calendar
  - i) The proposed operating budget, Capital Improvements Program (CIP), and five-year plan will be presented by the fourth Wednesday in February.
  - ii) Informational budget sessions and workshops will be presented between presentation of proposed budget and adoption of the budget, primarily at the second and fourth Wednesday Board of Supervisor meetings in March, with special meetings held, if necessary.
  - iii) The public hearing shall be held by the first Wednesday in April with consideration of the public hearing not being held the week of spring break for the schools.
  - iv) The budget should be adopted the week after the public hearing.
- b) Actual Board meeting dates will be established as part of the Board of Supervisors' Meeting Schedule approved by the Board of Supervisors with any additional Board meetings related to the budget also approved in the same manner.

### 3. Budget Guidelines

- a) The overall objective of the budget is to provide a balanced financial plan in total and by fund that adheres to the County's mission statement, long range strategic plans and/or current initiatives from which the budgets shall be initially formulated.
  - i) A balanced budget is a budget that has total expenditures equal to total revenues, including use of fund balance.
- b) Initiatives that are presented to the Board of Supervisors should also ensure compliance with the mission statement.
- c) Annual recurring budget guidelines shall be focused in certain areas, with additional guidelines and/or objectives formulated, if applicable, by the County Administrator in the formulation of the proposed budget.
  - i) Priority service levels
    - a) Education: Provide a funding plan for the Hanover County Schools that provides the basis for educating all students by maintaining student teacher ratios, provides appropriate instructional materials and provides appropriate capital infrastructure to limit overcrowding.

- b) Public Safety: Provide financial resources, including staffing and equipment, for all law enforcement and public safety departments to ensure that desired standards can be achieved and/or maintained in an effective and efficient manner.
- ii) Sound financial management practices
  - a) Mitigate the tax rate burden upon the citizens and dependency upon the real property tax rate through provision of service delivery in the most efficient and effective manner while maximizing opportunities for additional revenues from non-tax sources (e.g., State revenues) and diversification of local revenue sources.
  - b) Five-Year Financial Plan and Five-Year Capital Improvements Program (CIP) shall be annually prepared and adopted by the Board of Supervisors in illustrating the manner and the means in which the County's operating and capital needs are planned to be funded.
  - c) Funding recommendations should include recurring revenue to meet recurring expenses.
  - d) To maintain compliance with the County's financial polices in ensuring adequate reserves, limits on the County's debt burden and maintenance or improvement to the Aa1/AA+AA bond ratings.
  - e) If bond referendums are identified in the Five-Year CIP, to ensure that the plan for the anticipated financial impact of the proposed referendum with a phased construction schedule is comprised of projects that would be supported by the community.
- iii) Employee Compensation
  - a) Provide adequate employee compensation including consideration of pay for performance increases, salary benchmark adjustments, if applicable, and a comprehensive benefits plan.
  - b) Ensure that such compensation and benefits provided will be market sensitive and enable the County and School system to attract and retain outstanding employees.
- iv) Public Utilities
  - a) Operate a water and wastewater system as a self-supporting enterprise fund that provides high quality and reliable service delivery to customers, including the development of a capital improvement program.
  - b) Limit user and/or capacity fee rate increases to that which is needed to ensure long-term viability of the system.

4. Five-Year Capital Improvements Program

- a) The CIP is a plan for capital expenditures and a means of funding facilities, equipment and vehicles with a unit cost greater than \$50,000 during the next five fiscal years.

- b) General governmental projects will be funded by General Fund revenues (i.e. "pay as you go funding") with a target of at least 10% of the total five-year general governmental portion of the CIP funded by non-debt sources (e.g., General Fund, proffers and grants) over the five-year period.
- c) In designing a school capital improvement program, formulation of the CIP will illustrate that no individual school is over capacity by 10% for more than three consecutive years without consideration to long-term attendance boundary adjustments or placing any undue burden upon the real property tax.

5. Five-Year Financial Plan

- a) The plan will identify all major budget assumptions, including the anticipated collection of revenues, use of fund balance, expenditures, future operating costs of capital improvements and proposed changes in service levels and fees.
- b) The plan will clearly illustrate proposed service levels and the means to finance such service levels over the five-year period.
- c) Compliance with debt and fund balance polices shall be maintained for each year of the plan.
- d) Reserve for contingencies will be appropriated in the General Fund at an amount equal to at least 0.5% of the General Fund budget, net of capital improvement transfer.
- e) Financial plans enable the funds subject to such plans to be managed to maintain financial stability over the long-term by identifying current trends and future challenges; identifying the most appropriate mix of funding sources; analyze debt options and timing to minimize borrowing costs, encourage strong fiscal and operational management; and encourage consistency and financial integrity.

6. Public Utilities

- a) The costs associated with providing water and wastewater service shall be allocated between service types, uniform for similar types and classes of customers, and separate rates shall be established for each service type to avoid subsidies between services and match costs to the benefits derived by the ratepayer.
- b) Rates will be established utilizing a generally accepted rate setting methodology that would include analysis of revenue requirements, cost of services, rate design and rate implementation impact.
- c) Utility projects, including debt service as applicable, will be funded by capacity fees as it pertains to increased capacity and improvements for new customers and by user fees in the maintenance and rehabilitation of the overall system for the existing customer.

7. Budget Adoption

- a) Included with the budget resolutions is approval for the reappropriation of all encumbered balances and capital project unencumbered balances at fiscal year-end.
- b) As part of the adopted budget, all ordinance changes and other budgetary issues requiring Board of Supervisors approval will be presented to the Board for consideration.

- c) The Adopted Budget Document will be forwarded to the GFOA and other interested parties within 90 days of budget adoption for the Distinguished Budget Award program.

8. Budget Amendments

- a) Budget authorization levels are classified in three tiers for all non-education funds as follows:
  - i) Department Heads are authorized to transfer up to \$2,000 per month within their departmental budget categories of personnel, operating or capital.
  - ii) The County Administrator or designee is authorized to:
    - a) Transfer within departmental budget categories of personnel, operating and capital.
    - b) Transfer up to \$25,000 per month between departmental budget categories and/or departments and related capital project.
    - c) Transfer up to \$25,000 for any revenue change (e.g., insurance recoveries, grants and gifts).
    - d) Transfer reserve for contingencies to departmental and/or capital budgets up to \$5,000 per topic or issue involving need for such reserve funding.
  - iii) The Board of Supervisors approval is needed for all other transfers, including those transfers that increase the County's total appropriated budget.
- b) Any transfer that increases the total revenues for any of the education funds shall require the approval of the Board of Supervisors upon prior approval of the School Board.
- c) All transfers requiring County Board of Supervisors approval that have been initiated from the Community Services Board or Social Services Board must have the Community Services Board or Social Services Board, as applicable, approve the transfer prior to submission to the County with any exceptions approved by the County Administrator.
- d) Per the Code of Virginia, any additional appropriation(s) which increases the total budget by more than \$500,000 at any one Board meeting, is required to be advertised for a public hearing at least seven days prior to the Board of Supervisors' approval of such appropriation; with such advertisements authorized by the County Administrator, unless the County Administrator deems such request for advertisement should require Board of Supervisors approval.

9. Reappropriation of Balances

- a) Appropriations lapse on June 30, for all unencumbered budget items other than capital projects.
- b) Upon approval of the County Administrator, all outstanding encumbrances, both operating and capital, as of fiscal year-end shall be reappropriated to the subsequent fiscal year to the same department and account for which they were encumbered in the previous fiscal year.

- c) Upon approval of the County Administrator, all unencumbered balances for capital projects will not lapse at fiscal year-end, but shall remain appropriations until the completion of the capital project or until the Board of Supervisors, by appropriate resolution, changes or eliminates the appropriation.
- d) Those amounts necessary for the continuation of unencumbered operating projects or services may be requested by departments, amended by the County Administrator and adopted, with any changes, by the Board of Supervisors to be reappropriated to the budget of the next fiscal year.