

Budget Policy

I. Background

- A. This policy prescribes procedures and requirements of the budget formulation process, including the adoption of the Five-Year Financial Plan and the Capital Improvements Program (CIP).
- B. This budget policy also prescribes procedures and requirements of the budget management process.

II. Budget Calendar

- A. The following guidelines will be used in establishing the annual budget calendar
 - 1. The proposed operating budget, Capital Improvements Program, and Five-year Financial Plan will be presented by the fourth Wednesday in February.
 - 2. Informational budget sessions and workshops will be presented between presentation of proposed budget and adoption of the budget, with special meetings held by the Board if necessary.
 - 3. The public hearing will generally 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.
 - 4. The budget shall be adopted in accordance with applicable statutes.
- B. Budget Board meeting dates will be established as part of the Board of Supervisors' Meeting Schedule.

III. 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.

A balanced budget is a budget with total expenditures equal to total revenues, including use of fund balance.
- B. Initiatives that are presented to the Board of Supervisors should 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.
 - 1. Priority service levels
 - a. Education: Provide a funding plan for the Hanover County Schools that maintains favorable student -teacher ratios, provides appropriate instructional materials and provides appropriate capital infrastructure to limit overcrowding.
 - b. Public Safety: Provide staffing and equipment, for law enforcement and public safety departments to ensure that desired standards can be achieved and maintained in an effective and efficient manner.

2. 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-local tax sources (e.g., State revenues) and diversification of local revenue sources.
 - b. Prepare and adopt Five-Year Financial Plans and Five-Year Capital Improvements Program to describe funding sources and anticipated expenditures for operating and capital needs.
 - c. Provide recommendations which include recurring revenue to meet recurring expenses.
 - d. Ensure adequate reserves, limits on the County's debt burden, and maintenance or improvement of the County's bond ratings.
 - e. Include general obligation bond funding only if any required referendum is anticipated to be supported by the community.
3. 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 compensation and benefits provided will be market sensitive and enable the County and School system to attract and retain outstanding employees.
4. 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.

IV. Five-Year Capital Improvements Program

- A. The Capital Improvements Program is a plan for capital expenditures and a means of planning for 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"). In general at least 10% of the total five-year general government portion of the Capital Improvements Program should be 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 Capital Improvements Program will illustrate that no individual school is over capacity by 10% for more than three consecutive years without consideration of attendance

boundary adjustments or other appropriate measures.

V. 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 describe proposed service levels and the means to finance such service levels over the five-year period.
- C. Compliance with debt and fund balance policies 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; analyzing debt options and timing to minimize borrowing costs; encouraging strong fiscal and operational management; and encouraging consistency and financial integrity.

VI. 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 using 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.

VII. Budget Adoption

- A. The budget adoption resolutions include approval for the reappropriation of all encumbered balances and capital project unencumbered balances at fiscal year-end.
- B. All related ordinance changes and other budgetary issues requiring Board of Supervisors approval will be presented to the Board for consideration with the proposed budget adoption.
- 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.

VIII. Budget Amendments

- A. Budget authorization levels are classified in three tiers for all non-education funds as follows:

1. Department Heads are authorized to transfer up to \$2,000 per month within their departmental budget categories of personnel, operating or capital.
 2. The County Administrator 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 per topic or issue 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.
 3. Approval of the Board 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 following approval by the School Board.
- C. All transfers requiring Board approval that have been initiated from the Community Services Board or Social Services Board must have prior approval by the appropriate Board, unless otherwise prescribed by the County Administrator.
- D. Public hearings and associated notice for budget amendments will be conducted in accordance with applicable statutes.

IX. Reappropriation of Balances

- A. Unencumbered funds for capital projects and encumbered funds, both operating and capital, are reappropriated annually by the Board of Supervisors during the budget approval process.
- B. Except for those funds reappropriated by the Board, appropriations lapse on June 30.
- C. A review of capital projects will be conducted at year end to determine the necessity for reappropriated funds.

Budget Regulations

1. Budget Objectives and Calendar

- a) The County Administrator will identify proposed budget objectives and establish a budget schedule in conformance with County policy.
- b) The budget objectives will provide policy direction for the formulation of the County Administrator's proposed budget and the budget calendar will identify important dates throughout the budget preparation and adoption period.
- c) The following issues shall be considered in the development of budget objectives:
 - i) Adoption of budget, five-year financial plan and five-year capital improvements program.
 - ii) Funding of school target methodology whereby the allocation of General Fund monies for the education function corresponds to the growth of on-going revenues (excluding revenues tied directly to a general government service) and supported by defined objectives (e.g., merit increases, inflation, enrollment growth, student-teacher ratios).
 - iii) Anticipated property tax rate levels.
 - iv) Provision of adequate employee compensation including pay for performance increases for County and School employees and salary benchmark adjustments that will be market sensitive in ensuring the County and School system retain and attract outstanding employees.
 - v) Compliance with financial policies and maintenance or enhancement of bond ratings.
 - vi) Anticipated Public Utility rate levels and self-supporting nature of Enterprise Funds.
- d) The following items will be considered in conjunction with the budget preparation and adoption process unless it has been determined that the issues must be considered in a more expedited manner.
 - i) Ordinance changes involving fee/rate changes
 - a) Consideration should be given for the establishment of new fees directly associated with a service provided and the review of existing fees to ensure fees recover an acceptable portion of the expenses associated with the service.
 - b) Fees and programs should be reviewed to determine the availability of alternative revenue sources to diversify the County's revenues and reduce the dependence on any one revenue to fund the County's budget.
 - ii) New positions or changes to existing positions.
 - iii) Requests for a bond referendum.

- iv) Reimbursement and debt authorization resolutions for any proposed debt issuance to finance capital projects.
 - e) Recovered costs of the General Fund will include an appropriation equal to 100% from the most recent cost allocation plan for services provided by the General Fund to the Enterprise Funds inflated to the appropriate budget year and with a matching expenditure appropriation made in the Enterprise Funds.
2. Five Year Capital Improvements Program (CIP)
- a) The operating impact of proposed capital projects, including personnel, operating expenditures, capital outlay and debt service, as applicable, will be identified in the CIP document and considered in preparing the Five Year Financial Plan for the General Fund.
 - b) In order to best position the County for future capital improvement needs, land acquisition of suitable sites will be considered, when feasible, at least two years prior to the construction period.
3. Five Year Financial Plan
- a) All on-going programs will be funded with on-going revenues, when possible. When such a funding source is not available, future on-going revenues and/or a corresponding decrease in another on-going expenditure will be identified in the Five-Year Financial Plan to properly fund the program for the long-term.
 - b) It is the County's desire to pursue 100% non-local funding for any program or service mandated upon the County from the State and/or Federal government, with any unfunded mandate managed within the current revenue structure and/or re-allocation of existing resources.
4. Budget Preparation
- a) The Finance Department and County Administrator will establish a budget schedule by October 1, which will include important dates throughout the budget preparation period.
 - b) All departments, excluding the School Board, will submit their requested budget to the Finance Department by a date and format established by the County Administrator, with the requested budget providing detail as to personnel, operating and capital requests, including five year capital improvement program requests, five year financial plan requests and performance objectives.
 - c) County and School officials will work together in updating the school target methodology and various components of the methodology (e.g., enrollment projections, capital improvements program, debt issuance schedule, availability of funding, etc.) and agree to a school target by January 15.
 - d) County Boards and Other Organizations

- i) The Community Services Board and Social Services Board shall approve the departmental budget request of their respective organizations prior to submission to the County Administrator.
 - ii) The School Superintendent shall submit a recommended budget by January 15 and the School Board shall approve the budget request, with any enumerated changes, by February 1.
 - iii) The Parks and Recreation Advisory Committee shall submit a total budget request for funds for County parks and recreation related organizations, with any changes enumerated by the County Administrator and/or Board that upon final adoption shall be administered by the Parks and Recreation Advisory Committee in accordance with the Board's Administrative Policy.
- e) The County Administrator shall submit to the Board of Supervisors a proposed budget by the fourth Wednesday in February to include proposed expenditures, segregated at the departmental level between personal services, operating expenditures and capital outlay, and a means of financing the expenditures, for the fiscal year commencing July 1.
 - f) Budget workshops will be scheduled with the Board of Supervisors as deemed necessary to provide detailed information on budgetary issues.
 - g) The Planning Commission shall review the County Administrator's Proposed Five Year Capital Improvements Program (CIP) and provide a recommendation on the CIP to the Board of Supervisors.
 - h) A consolidated public hearing on the budget, CIP, Five Year Financial Plan, ordinance changes and personal property tax rates (with a separate public hearing on the real property tax rate, if applicable) shall be held no later than the second Wednesday in April.
 - i) The consolidated public hearing notices shall be advertised in accordance with applicable statutes.
 - j) If significant issues arise in which greater time is needed for the formulation of the Superintendent's Proposed, County Administrator's Proposed and/or Board of Supervisors Adopted Budget, the budget preparation calendar can be extended upon approval of the Board and subject to State imposed deadlines.

5. Budget Adoption

- a) Generally, one week following the public hearing, the Board of Supervisors shall adopt a balanced budget, five-year capital improvements program and five-year financial plan.
- b) The budget is legally enacted through adoption of an appropriations resolution for all governmental and proprietary fund types with the resolutions appropriating budget balances by fund.
- c) Although legal restrictions on expenditures are established at the fund level, effective administrative control over expenditures is maintained through the establishment of more detailed line-item budgets.

- d) At all times the County will maintain compliance with the applicable statutes in appropriating, advertising public notices, ordinance changes, requests for bond referenda and any other legal restrictions imposed upon localities.

6. Budget Amendments

- a) The following budget authorization levels have been established by the School Board (as School Board has authorization to set its own budget thresholds, County Budget regulations are automatically modified to always be in compliance with School Board budget transfer policy):
 - i) All School Board transfers between \$20,000 - \$75,000 shall require the approval of the Superintendent and all transfers below \$20,000 shall require the approval of the Superintendent's designee.
 - ii) Transfers that exceed \$75,000 shall require the approval of the School Board.
- b) If fund deficits are anticipated within a fiscal year, recommended spending reductions will be proposed by the County Administrator to the Board of Supervisors when there is not sufficient undesignated fund balance above the policy to offset the deficit. All anticipated fund deficits will be reported to the Board of Supervisors.
- c) Budget amendments can be processed with Finance authorization for line-item transfers correcting a previously mis-posted entry and/or enhancement of classification of a line-item from to more appropriate description of intended object of expenditure or receipt of revenue.

7. Reappropriation of Balances

- a) The County Administrator will submit to the Board of Supervisors at their meeting on the fourth Wednesday in August a proposed budget amendment for the reappropriation of unencumbered operating funds.
- b) All audit adjustments to the prior fiscal year subsequent to the reappropriation shall accordingly amend the current fiscal year's budget balance, if applicable, to properly reflect available funding.

8. Budgetary Accounting

- a) Budgets are adopted on a basis consistent with GAAP for all governmental funds.
- b) Budgets for the proprietary funds (Public Utilities and Airport) are adopted in accordance with GAAP with the exception that the budget recognizes the flow of funds (i.e., payment of debt principal is budgeted and depreciation is not budgeted).
- c) All budget data in the Comprehensive Annual Financial Report represents the original budget and the revised budget (sum of adopted budget, reappropriation and budget transfers).