

# Long-Term Financial Policies

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Carroll County Government uses a set of guidelines in the development of the annual budget. The goal of the Commissioners is to develop an annual budget that provides high quality services and infrastructure to the citizens of Carroll County while maintaining financial stability. The financial guidelines are listed below:

## Balanced Budget

The County will adopt a balanced budget on a fund basis. A balanced budget is achieved when revenues plus use of fund balance equal expenditures. All funds are balanced except for the pension fund. The pension fund states employee pension assets and liabilities and is reported in the County's Audited Financial Statements.

## Basis of Budgeting

The basis of budgeting, as well as the basis of accounting, is tied directly to an entity's measurement focus of revenues and expenses (expenditures). Carroll County uses the same measurement focus when preparing its budgets, as accounting when preparing its financial statements. Funds that focus on current financial resources, primarily governmental funds, use the modified accrual basis of accounting. Revenues are recognized when earned, but only to the extent they are available and expenditures are recognized when due. Funds that focus on total economic resources, primarily proprietary, pension trust, and internal service funds, use the accrual basis of accounting. Revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows or outflows.

- The County budgets the following funds using the modified accrual basis of accounting:
  - General Fund
  - Capital Fund
  - Special Revenue Fund
    - Developer Impact Fee
    - Hotel Tax
    - Agricultural Transfer Tax
    - Cable TV Franchise Fee
- The County budgets the following funds using the accrual basis of accounting:
  - Enterprise Funds:
    - Bureau of Utilities
    - Solid Waste
    - Airport
    - Septage
    - Firearms
  - Internal Service Fund
  - Trust Funds:
    - Firemen's LOSAP Fund
    - Employee Pension Trust Fund
    - OPEB Fund
  - Agency Fund

## **Multi-year Financial Forecasting**

- The County maintains a balanced six-year Operating Plan and a Community Investment Plan (CIP) for expenditures built on projected revenues. The development of six-year plans allows the County to evaluate the impact of current decisions on the long-term financial position of the County.
- Six-year Operating Plans for all of the Enterprise Funds continue to be developed with expenditures built on projected revenues.

## **Monthly Financial Reporting**

County staff reviews all fund revenues and expenditures monthly, more frequently when conditions warrant, and reports to the Commissioners quarterly. The staff frequently reviews the current economic conditions and political environment and assesses the impact it may have on the current and/or future fiscal years.

## **Budget Appropriation Transfers (Resolution 588-03)**

The Chief of Staff and the Director of Management and Budget are authorized to sign budget appropriation transfers with the following exceptions, which the Board of County Commissioners must approve: a transfer from one project to another in a different department greater than \$500 or 2% of the budget, whichever is greater, to a maximum of \$500 or 5% of the budget in a fiscal year; any transfer from the Reserve for Contingencies greater than .001% of the General Fund budget (for example, .001% of the FY 11 General Fund Budget of \$349,000,000 is \$3,490); and any transfer between capital projects greater than \$1,000. If an amount of transfer is greater than the limits specified in Resolution 588-03 then the requesting agency and the Department of Management and Budget must obtain approval in an open session from the Board of County Commissioners.

## **Capital Budget**

- **One-Time Revenues**  
Historically, one percent of budgeted revenues from the current year are considered as on-going funding for the projected budget two years out. Any remaining fund balance will be considered as one-time funding. First priority for these revenues is given to providing paygo funding in the Capital Budget.
- **Paygo Capital Funding**  
The County commits approximately 3% of Property Tax as paygo funding in the CIP. Examples of paygo funding include: Income Tax Revenue; Property Tax Revenue; Impact Fees; bond interest; and agricultural transfer tax funding.
- **Operating Impacts of Capital Projects**  
No capital project request is considered without an estimated operating impact. Operating impacts are integrated into the Operating Plan after being developed and refined with the assistance of the Department of Management and Budget.

## Investment Management

- The comprehensive Carroll County investment policy addresses the following areas:
  - scope, prudence and objectives
  - delegation of authority
  - ethics and conflicts of interest
  - authorized financial dealers and institutions and diversification in authorized and suitable investments
  - collateralization
  - safekeeping, custody, and internal controls
  - performance Standards, reporting requirements and policy adoption
- It is the policy of Carroll County, Maryland to invest public funds in a manner which will conform to all State of Maryland and County statutes governing the investment of public funds while meeting its daily cash flow demands and providing a return at least equal to the three-month Treasury bill yield.
- The investment policy applies to all financial assets of the County. These funds are accounted for in the County's Comprehensive Annual Financial Report and include:
  - the general fund
  - special revenue fund
  - capital project funds (including bond funds)
  - enterprise funds
  - debt service funds
  - special assessment funds
  - internal service funds
  - any new funds as provided by county ordinance
- The primary objectives, in priority order, of the County's investment activities shall be:
  - **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification, third party collateralization and safekeeping, and delivery versus payment will be required.
  - **Liquidity:** The County's investment portfolio will remain sufficiently liquid to enable the County to meet all operating requirements which might be reasonably anticipated.
  - **Return on Investment:** The County's investment portfolio shall be designed with the objective of attaining a return at least equal to the three-month U.S. Treasury bill yield.

## Fund Balance Reserve/Working Capital Reserve

Governmental funds report the difference between their assets and liabilities as **fund balance**. Under Generally Accepted Accounting Principles (GAAP) fund balance is divided into reserved and unreserved portions. The **reserved fund balance** isolates the portion of fund balance that is not available for appropriation to the next budget. Under GAAP the **unreserved fund balance** can be further

divided into designated and undesignated portions with the *designated fund balance* representing intended uses of fund balance. Designating the use of fund balance is a powerful tool in prudent fiscal planning, allowing governments to manage their future fiscal health. *Unreserved/undesignated fund balance* is fully available for appropriation and, under the Code of Public Local Laws of Carroll County Article 7, 3-62(19), must be appropriated to the next budget following the completion of an independent financial audit of those funds.

*Reserved Fund Balances:*

The reservation of fund balance is necessary for two reasons:

- *Resource not available for spending.* Some of the assets reported in governmental funds are not available for spending in the subsequent year's budget. For example, a long-term loan receivable is not available for current spending.
- *Legal restrictions on spending.* Fund balance also is reserved to indicate situations where a portion of fund balance is not available for new spending because of legal restrictions involving parties outside the financial reporting entity. A common example is funds reserved for encumbrances.

The designation of funds is a fiscal tool used to ensure the County's fiscal stability. Some examples of designations include:

- *Stabilization Fund.* The County maintains a stabilization fund of 3% of budget to provide a reserve against certain specified conditions including a natural disaster or a sudden and unexpected drop in revenues.
- *Secondary Fund.* The County maintains a secondary reserve of 1.5% as a buffer against short-term revenue fluctuations.
- *Medical Claims Reserve.* The County is self-insured for medical and hospitalization costs and maintains a reserve against a short-term rise in claims experience.

*Unreserved/Undesignated Fund Balance:*

The unreserved/undesignated fund balance must be appropriated to the next budget following an independent financial audit. A year-end surplus is the expected result of prudent fiscal management. Since a surplus is the result of one year's operations and the money is only available one time, it cannot support ongoing changes like decreased taxes or increased services. A pattern of large surpluses could signal a need to change budget assumptions, but over the last ten years Carroll County has had a history of modest surpluses averaging 3.5%. Surpluses tend to vary over time in response to the economy and events of each year. Surpluses result from revenues coming in higher than anticipated and/or expenditures coming in lower than planned. As recently as FY 03, Carroll had a fund balance as small as 1.6%. The County typically appropriates unreserved/undesignated fund balances to capital projects in an effort to catch up on adequate facilities. The table below shows the unreserved/undesignated fund balance over the past five years:

	<b>FY 05</b>	<b>FY 06</b>	<b>FY 07</b>	<b>FY 08</b>	<b>FY 09</b>
Budget	\$262.7	\$283.9	\$302.6	\$328.4	\$353.0
Fund Balance	\$12.9	\$13.5	\$7.3	\$14.9	\$8.1
<b>% of Budget</b>	<b>4.91%</b>	<b>4.77%</b>	<b>2.41%</b>	<b>4.54%</b>	<b>2.29%</b>

The County practices a four-part approach to provide flexibility in the event of unexpected expenditures or loss of revenue:

1. For FY 11, a target amount of 1.25% of the General Fund revenues is appropriated in a Reserve for Contingencies to be used for unplanned expenditures with approval of the Board of Commissioners. The Commissioner's also decided to put an additional \$1.7 million into the Reserve, over and above the 1.25%, as a precaution against additional State cuts and economic uncertainty. In the event of a short-term loss of revenue, the Reserve may be utilized to avoid the need for reductions in the level of service.
2. A target amount of 1.5% of General Fund revenues is maintained in a secondary reserve as a buffer against short-term revenue fluctuations. For FY 11, 1.9% of General Fund revenues are being reserved.
3. A target amount of 3.0% of General Fund revenues is maintained as a reserve for extreme unforeseen expenditures. The need for the funds must meet specific criteria and be appropriated by the Board of County Commissioners after a public hearing. For FY 11, 3.1% of General Fund revenues are being reserved.
4. On a smaller scale but for specific circumstances where the County is self-insured or where expenditures can experience wide fluctuations, the Board of County Commissioners has established reserves to provide flexibility.
  - A \$1.4 million Health Claims Reserve based on plan.
  - A \$400,000 Worker's Compensation Reserve.
  - A \$500,000 Vehicle Reserve to provide for greater flexibility in planning vehicle replacement purchases.

## **Revenue**

- The County will endeavor to have a diversified and stable revenue system to protect against short-term fluctuations in any one revenue source.
- The County will estimate its annual revenues by a comprehensive, objective, and analytical process.
- Each existing and potential revenue source will be budgeted on an annual basis.
- The County will provide revenue estimates for the following five years for both its Operating and Community Investment Plans.