Fiscal Policy *For:*

Harnett County, North Carolina

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Approved Amendments as of November 7, 2016

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FISCAL POLICY – PURPOSE

Harnett 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 must continually prepare to provide services for a growing population. The County's Fiscal Policy is intended to maintain and improve the County's financial condition and preserve its ability to meet future needs. This policy will be reviewed at least annually and changes approved by the Board of Commissioners. An effective policy:

- Contributes to the County's ability to insulate itself from fiscal crisis,
- Enhances short-term and long-term credit worthiness and helps the County achieve the highest credit and bond ratings possible,
- Promotes long-term financial stability by establishing a clear and consistent framework for budget and financial decisions,
- Directs attention to the total financial picture of the County, rather than single-issue areas,
- Links long-term financial planning with day-to-day operations, and
- Provides the County Staff, the County Board of Commissioners and the County citizens a framework for measuring the fiscal impact of government services against established fiscal parameters.

To these ends, the following fiscal policy is adopted:

CAPITAL IMPROVEMENT PLAN (CIP) POLICIES

1. It is the responsibility of the County Board of Commissioners to provide for the capital equipment and facilities necessary to deliver county services to the residents of the County, as well as provide necessary capital equipment and facilities for the Harnett County Public Schools and the Central Carolina Community College system.
2. North Carolina statutes charge the County Manager with preparation of the capital budget. It shall be his/her responsibility or that of his/her designee to coordinate the CIP process; receive requests from County departments, Harnett County Public Schools, and Central Carolina Community College; and propose a recommended CIP to the Board of Commissioners.
3. The Board of Commissioners is responsible for adopting a CIP annually and may amend it as needed.
4. All capital projects must be proposed through the County's CIP process.
5. The CIP includes all approved capital projects, including new construction, renovations, vehicles and heavy equipment, new software and other technology, and all other purchases and improvements that meet the threshold for definition as a capital project, currently $100,000 and above.
6. The County will develop a CIP of at least seven years and review and update the plan annually. The Hamett County Public Schools and the Community College System are strongly encouraged to submit their needs through this process, along with a prioritization of their requests.
7. After projects are approved in the CIP and before the project can begin, the project must be authorized through one of two means:
   A. Capital project ordinances: A separate capital budget ordinance shall be submitted to the Board of Commissioners for approval for all capital projects that are projected to span more than one fiscal year;
   B. All other capital projects will be budgeted in the operating budget.
8. All capital projects will be assigned a project code by the Finance Officer for tracking and reporting purposes.
9. The CIP will prioritize the maintenance of existing facilities and equipment, and otherwise protect the county's past capital investments. A maintenance and replacement schedule will be developed and followed as funding allows.
10. County departments will provide a written justification and identify the estimated project costs, potential funding sources, and impacts on the operating budget for each proposed capital project and include this information in their requests. The County Manager or his/her designee will review, modify as appropriate, and include this information in the recommended CIP.
11. The County will pursue the most cost-effective strategies for financing the CIP, consistent

with prudent financial management.

DEBT POLICIES

1. The County will confine long-term borrowing to critical capital projects that cannot be financed from current revenues, unless financing results in a net financial benefit to the county.
2. The County will take a balanced approach to capital funding by utilizing capital reserves and pay-as-you-go funding where possible. Pay-as-you-go funding will come from budgeted appropriations and funds set aside in capital reserves.
3. The county's capital funding strategy should result in the least financial impact on current and future taxpayers.
4. When the County finances capital projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
5. Net debt as a percentage of estimated market value of taxable property shall not exceed 2.5%. Net debt is defined as any and all debt that is tax-supported.
6. Debt Service expenditures as a percent of total governmental fund expenditures should not exceed 15%. Should this ratio exceed 15%, staff must request an exception from the Board of Commissioners stating the justification and expected duration of the policy exception. Exceptions shall be reviewed and approved annually by the Board of Commissioners until compliance is achieved.
7. The County will retire tax anticipation debt, if any, annually and will retire bond anticipation debt within six months after completion of the project.
8. Outstanding tax-supported debt principal shall be no less than 50.0% repaid in 10 years.
9. Enterprise Debt Policies:
   A. The Enterprise Fund is responsible for setting rates and charges at such a level which maintains the "self-supporting" nature of the fund.
   B. The County will target a minimum amount of equity funding of 10% of the Enterprise Fund capital improvement plan on a five-year rolling average.
   C. The Enterprise Fund will comply with all applicable bond covenants.
   D. The Enterprise Fund will maintain a debt service coverage ratio as defined by the General Indenture of the Enterprise System Revenue Bonds. These minimum requirements are summarized to be:
      1) 1.20x debt service coverage on Parity Indebtedness (Revenues for this measure may include 20% of the balance in the Surplus Account at the end of the preceding Fiscal Year)
      2) 1.00x debt service coverage of Parity Indebtedness, General Obligation

Indebtedness, Subordinate Indebtedness, Other Indebtedness, and any amount due to the Qualified Reserve Fund or Qualified Reserve Fund Substitute.

RESERVE POLICIES

1. The County will maintain a minimum Unassigned Fund Balance, as defined by the Governmental Accounting Standards Board, at the close of each fiscal year equal to 15% of General Fund Expenditures with a targeted Unassigned Fund Balance equal to 20% of General Fund Expenditures.
2. In the event that funds are available over and beyond the 20% targeted amount, those funds may be transferred to a capital reserve fund, a capital projects fund, to pay-down debt or to fund other one-time uses. Such transfers or uses shall be approved by the Board of County Commissioners in conjunction with a staff recommendation based upon a fund balance analysis to be completed within six months of the close of each fiscal year taking into consideration the prior year's financial statements, current year-to-date budget performance, current property tax valuations and the County's most recently adopted capital improvement plan.
3. The County Board may, from time-to-time, utilize fund balances that will reduce Unassigned Fund Balance below the 15% minimum for the purposes of a declared fiscal emergency or other such purpose as to protect or enhance the long-term fiscal security of the County. In such circumstances, the Board will adopt a plan to restore the Unassigned Fund Balance to the target level within 36 months. If restoration cannot be accomplished within such time period without severe hardship to the County, then the Board will establish a different but appropriate time period.
4. Enterprise Reserve Policies: The County has adopted a comprehensive strategy for the long-term stability and financial health of each Enterprise Fund that provides for annual increases in fund reserves to an established goal of 50% of operating and maintenance expenses

BUDGET DEVELOPMENT POLICIES

1. 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.
2. The Budget Process will comply with the North Carolina Local Government Budget and Fiscal Control Act.
3. North Carolina statutes charge the County Manager with preparation of the

recommended operating budget. It shall be his/her responsibility or that of his/her designee to coordinate the budget process; receive requests from County departments, Harnett County Public Schools, and Central Carolina Community College; and propose a recommended budget to the Board of Commissioners.

4. The Board of Commissioners is responsible for adopting an annual operating budget and may amend it as needed.

5. 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, CIP projects, debt retirement, contribution to capital reserve, and other non-recurring expenses. Proceeds from the sale of surplus capital items will go into the County's general capital reserve, unless proceeds are otherwise restricted.

6. The County will pursue an aggressive policy to collect current and delinquent property taxes, utility fees, licenses, permits and other revenues due to the County. The County will not waive any revenues due to the County unless those revenues were collected unlawfully.

7. The Finance Officer will generate reports that show actual revenues and expenditures compared to the budget and will present this to the County Board on a monthly basis.

8. Budget amendments will be brought to the County Board for consideration as needed.

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

10. 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.

11. Funding-of Outside Agencies: From time to time, the County may elect to provide services through nonprofit agencies if those services meet the standard for public purpose as defined by the NC Constitution and the services can be achieved more cost effectively through the nonprofit. In order to receive county funding, nonprofits must abide by the county's budget process and deadlines and provide the information requested during budget process.

12. 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 that 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:

    A. If a grant does not require any county match, either cash or in-kind, and the funder does not expect the county to continue to fund a position or a program after the grant, 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.

B. If the grant requires a county match, either cash or in-kind, or the funder expects the county to continue to fund a position or program after the grant is complete, then the grant application must be submitted to the Board of Commissioners for approval.

C. For grants that require Board of Commissioner approval, but approval cannot be obtained before the grant deadline, 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.

D. Departments shall be responsible for timely completion and filing of reports required by the grantor. Missing of report deadlines shall be grounds for denying approval of future grant applications.

13. 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.

14. 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 to and from 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.

15. 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.

16. 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.

17. Budget Officer: The County Manager serves as the budget officer. He/she is authorized to perform the following functions or delegate them:

   A. Transfer funds within a department without limitation.

   B. 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.

C. 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.

D. Employ temporary help from time to time to meet circumstances.

E. Execute contracts provided that funds for the contract have been approved as part of the annual budget 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.

18. Enterprise Funds:

A. The County maintains Enterprise Funds (primarily water and wastewater and solid waste) that are self-sustaining for both operational and capital purposes. The Enterprise Funds will adhere to the County Fiscal Policy with any exceptions noted in the policy.

B. Any improvements required to meet new regulatory requirements or to meet changes in the service demands will be included in either the capital improvement plan or the annual budget request, depending on the cost of the improvement.

C. Service rates:

1) Service rates will be reviewed annually as part of the budget process.

2) Service rates will be adjusted as needed to provide adequate funding for the proper operation, maintenance, and expansion of the system.

3) Service rates will be adjusted as necessary to meet bond covenants, debt service obligations, and the Adopted Fiscal Policy.

EDUCATION FUNDING POLICIES

1. It is the intent of the County to appropriate funding to the Board of Education to assure that the necessary resources are provided for current expense and to meet the low-wealth funding requirements.
2. The County will provide current expense funding based upon the most recent known 2nd month average daily membership (ADM) times the most recent known Three-Year Average of Appropriations as determined by the NC Department of Public Instruction.
3. The County will provide funds for Capital and Capital Maintenance. The source of funding will be a portion of the lottery proceeds and will be disbursed based upon the adopted budget ordinance.
4. The County will detail the amounts to be budgeted under this policy as part of the annual budget ordinance.

CASH MANAGEMENT/ INVESTMENT POLICIES

1. It is the intent of the County that public funds will be invested in interest bearing accounts to the extent possible to reduce the dependence upon property tax revenues. Funds will be invested with the chief objectives of safety of principal, liquidity, and yield, in that order. All deposits and investments of County funds will be in accordance with N.C.G.S. 159.

2. Up to one-half (50%) of the appropriations to Non-County Agencies and to non debt-supported capital outlays for County Departments can be encumbered prior to December 31. Any additional authorization shall require the County Manager's written approval upon justification. The balance of these appropriations may be encumbered after January 1, upon a finding by the County Manager that there is a reasonable expectation that the County' s Budgeted Revenues will be realized.

3. The County will use a Central Depository to maximize the availability and mobility of cash for all funds that can be legally and practically combined.

4. Cash Flows will be forecasted and investments will be made to mature when funds are projected to be needed to meet cash flow requirements.

5. Liquidity: No less than 20% of funds available for investment will be maintained in liquid investments at any point in time.

6. Maturity: All investments will mature in no more than thirty-six (36) months from their purchase date.

7. Custody: All investments will be purchased "payment-verses-delivery" and if certificated will be held by the Finance Officer in the name of the County. All non-certificated investments will be held in book-entry form in the name of the County with the County's third party Custodian (Safekeeping Agent).

8. Authorized Investments: The County may deposit County Funds into: Any Board approved Official Depository, if such funds are secured in accordance with NCGS-159 (31). The County may invest County Funds in: the North Carolina Capital Management Trust, US Treasury Securities, US Agency Securities specifically authorized in GS-159 and rated no lower than "AAA", and Commercial Paper meeting the requirements of NCGS-159 plus having a national bond rating.

9. Diversification: No more than 10% of the County's investment funds may be invested in a specific company's commercial paper and no more than 25% of the County's investment funds may be invested in commercial paper. No more than 25% of the County's investments may be invested in any one US Agency' s Securities.

10. Allocation: Investment income will be allocated to each participating fund or account based on a fair and equitable formula determined by the Finance Director.

SUMMARY OF KEY POLICY RATIOS

Ratio	***Target***
Tax Supported Debt to Assessed Value:	<2.5%
Tax Supported Debt Service vs. Expenditures:	<15.0%
Tax Supported 10- Year Payout Ratio:	>50.0%
General Fund Unassigned Fund Balance as a Percent of Operating Budget:	>15.0%
Enterprise Fund Pay-go Capital (5-year Rolling Average):	>10.0%
Enterprise Fund Parity Debt Service Coverage (with 20% of Surplus Account)	>1.20x
Enterprise Fund Debt Service Coverage on all Indebtedness:	>l.OOx
Enterprise Fund Reserves as a Percent of Operating and Maintenance:	>50%