North Carolina Center for County Research

Basics of County Government Budgeting and Finance

The county budget is the most important policy-setting document enacted annually by the board of county commissioners. By setting forth the anticipated revenues and the required and discretionary expenditures for public services, the annual budget provides the roadmap of county priorities, funding principles, and taxing policy.

North Carolina state law highly prescribes county financial practices, procedures, and budget requirements. The process that county governments must follow in the creation and enactment of their annual budget and in financial accounting practices is the Local Government Budget and Fiscal Control Act (LGBFCA) (G.S. Ch. 159, Art. 3). This law states that all revenues collected and expenditures made by a local government must be passed by the governing board through the budget ordinance.

The annual budget ordinance must set the tax rate for the fiscal year (which cannot be changed except in the case of a few specific exceptions), be balanced, and set legal limits on what the local government may spend. The budget must include all money that a county will spend and must follow a fiscal year of July 1 through June 30.

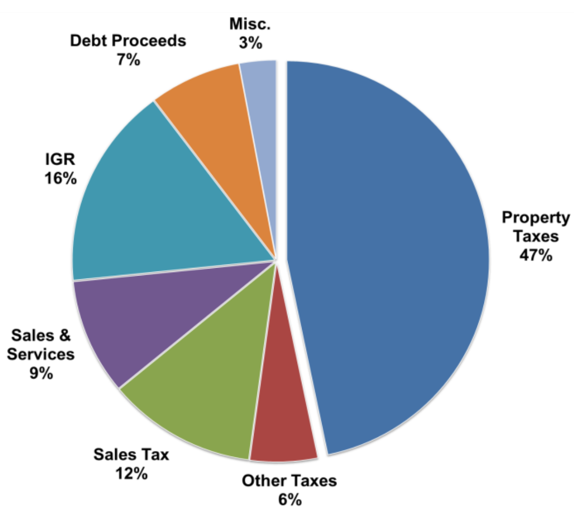
Budget Calendar:

The LGBFCA sets three specific deadlines for the adoption of the budget ordinance:

- April 30: Departmental budget requests submitted to budget officer (County Manager)
- June 1: Recommended budget and budget message submitted to governing board (County Commission)
- July 1: Budget ordinance adopted by the governing board

In addition to these deadlines, a public hearing must be held to give the people in the county the opportunity to express their views on the proposed budget. At least 10 days notice is required prior to the public hearing. If a budget ordinance is not adopted by July 1, the governing board may adopt an interim budget to allow for expenditures to be made between July 1 and when the budget ordinance is approved.

Revenues:



The annual budget ordinance must contain the revenues that the county expects to collect over the upcoming fiscal year. Counties receive funding from several sources, but property and sales taxes provide the lion's share of county revenue. Property taxes are the largest source of revenue, comprising 47 percent of all revenue generated by North Carolina counties in the 2012-13 fiscal year, according to the N.C. Department of the Treasurer. Property taxes are value-based taxes paid on various types of property (i.e. residential and commercial real estate, automobiles, boats, public utilities.). The property tax rate is the amount of tax due for each $100 of assessed value, and the budgeted property tax revenue is calculated by multiplying the tax rate by the total assessed valuation for the county. The results are further restricted by the property tax collection rate from the prior fiscal year. On average, counties to collect more than 97% of the property tax they are owed.

The county conducts an appraisal of the monetary value of the property, and tax is assessed in proportion to that value. The North Carolina Constitution requires that all property be assessed at its fair market value, and state law requires counties to re-assess property values at least once every eight years. Following a property reappraisal the county is required to publish a revenue neutral tax rate in addition to the actual tax rate adopted for the fiscal year. The revenue neutral rate is considered to be the rate that when applied to the new property tax base would generate the same amount of property tax revenue as the previous year's rate did on the old property tax base.

In the past properties generally increased in value in the time period prior to a revaluation, meaning that a lower rate would be required to generate the same amount of property tax revenue. As the recession caused property values to decrease, the revenue neutral rate generally needed to be adjusted higher for counties to generate the same amount of revenue to cover essential public services.

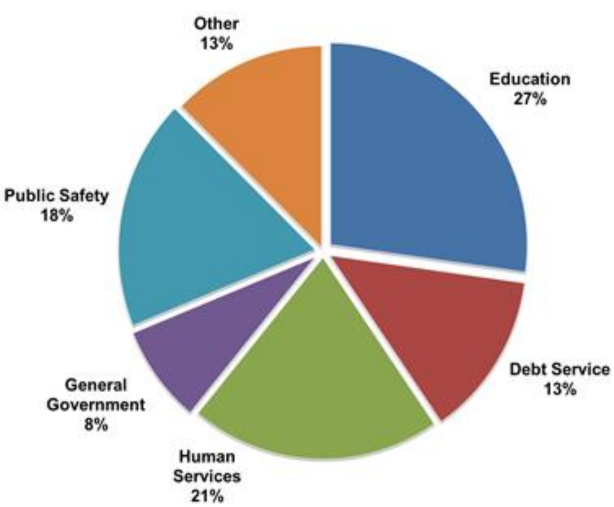
County-levied sales taxes are another important source of revenues for counties, providing 12 percent of county revenues in 2012-13. Counties may levy a 2% sales tax on each dollar of qualified sales in the county. In addition to this 2%, boards of county commissioners can also decide to levy an additional .25% sales tax by holding a referendum and getting approval from voters. Counties have an additional authority for a sales tax to support mass transit.

Each county shares most of it sales tax revenues with all the incorporated municipalities within its borders. Some counties have received special legislative authority to levy taxes on hotels or prepared meals—these special taxes are generally restricted for tourism and economic development purposes.

Intergovernmental transfers make up another significant source of revenue for counties. These are monies that the federal or state governments provide to counties to help pay for human services that counties are mandated by either federal or state law to provide, such as public health and social services.

Counties also derive revenue from other sources, such as locally imposed fees for services like trash pick-up or water and sewer provision, special taxes to fund volunteer fire departments or Emergency Medical Services units, and fees for restaurant inspections and building permits.

Expenditures:



After accounting for the revenue that the county can expect to receive, the next part of the budget ordinance is the estimated expenditures for the upcoming year. The budget ordinance appropriates money for the funding of government services as well as gives the county the legal authorization to spend its revenues. Most local governments make appropriations by department or function, thereby delegating the line item control to the budget officer and department heads.

Education and human services are the largest sources of expenditures for most counties.

In North Carolina, counties are required to build and maintain public school buildings. County governments also rely on county-levied revenues to supplement state funding of public school operations. For example, many counties offer salary supplements to attract and retain qualified teachers, and county funds are also used by school districts to hire additional personnel like teacher aides or school safety officers. In 2012-13, 27 percent of county expenditures went towards education. Counties also spent 13 percent of their budgets on debt service, much of which goes towards paying off debt related to school capital needs. Combined, over 35 percent of counties' expenditures go towards public schools.

The next largest expense for counties is Human Services, making up 21% of county expenditures. These funds generally go to three agencies: the county social services department, the county health department, and the mental health authority or agency serving the county. While the client benefits offered by these agencies are largely supported by federal and state sources, the administrative expenses largely fall on counties. Counties must comply with program and service requirements set forth by the federal and state governments, while managing fluctuating demand for these services, especially during times of economic crisis.

Counties also spend a significant amount of their budget on public safety (Sheriff's Department, volunteer fire departments and Emergency Medical Services).

Impact of the Economic Recession:

In the aftermath of the 2008 stock market and housing collapse, North Carolina counties faced unprecedented revenue declines, particularly in sales tax receipts and construction-related fees. Overall, county revenues were down 13 percent, from 2008 to 2012, continuing a decline not seen since the 1930s.

Counties responded by cutting budgets significantly, despite a growing population and higher service demands for county-provided human services programs. All categories of spending save public safety saw budget cuts, including education at a 25 percent decline. Counties were forced to make heavy cuts to their workforce, reducing the amount spent on salaries and wages by 25 percent.

Capital spending was down overall as counties focused on repaying the debt service on previous capital projects. Budget cuts at the state level, specifically the General Assembly's decision to appropriate less than the 40 percent of lottery funds designated for school construction resulted in a 67 percent reduction in county spending for public school capital.

Counties saw a general decline in property tax collection rates, another indication of the fiscal crisis. County tax base values are also in the decline, leading many counties to increase their property tax rates immediately following revaluation just to remain revenue neutral.

Despite the fiscal crisis, North Carolina county governments exercise high quality financial management. Overall, counties collect a very high percentage of current tax levies, maintain adequate cash reserves in the general fund, and rely on "hard" revenues (taxes) to provide services. As a result, bond-rating agencies continue to view North Carolina counties favorably when awarding ratings to county bond issues.