Long-Term Financial Policies

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 equals 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 budgets as accounting does 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
    - Agricultural Transfer Tax
    - Cable Franchise Fee
    - Hotel Rental Tax
    - Impact Fees
    - Watershed Protection and Restoration Fund
- The County budgets the following funds using the accrual basis of accounting:
  - Enterprise Funds:
    - Airport
    - Fiber Network
    - Firearms
    - Septage
    - Solid Waste
    - Utilities
  - Internal Service Funds

- Trust Funds:
  - OPEB Fund
  - Employee Pension Trust Fund
  - Certified Law Officers Pension Trust Fund
  - Firemen's LOSAP 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

Once the Budget is adopted, transfers within a fund can be made with the appropriate approval but the total Budget cannot be increased or decreased without a public hearing.

Capital Budget

- One-Time Revenues
  Historically, one percent of budgeted revenues from the current year are considered as ongoing 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. Other paygo funding includes: 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:
  - General fund
  - Special Revenue fund
  - Capital project funds (including bond funds)
  - Enterprise 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

Governmental funds report the difference between their assets and liabilities as fund balance. In February 2009, The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This latest GASB standard will not affect the calculation of fund balance, but will fundamentally alter the various components used to report it. Fund balance will now be divided as follows:

1. Nonspendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

Nonspendable funds are not in a spendable form or must be maintained intact. Examples of this are inventories, prepaid expenses, and loans to various agencies.

Restricted funds can only be used for the specific purposes as stipulated by external creditors, grantors, or laws of other governments, constitutionally, or through enabling legislation.

Committed funds are those constrained by limitations that the government imposes on itself at the highest level of decision-making authority. Commitments may be changed or lifted only by the same formal action that imposed the original constraint.

Assigned funds are intended to be used by the government for a specific purpose. This intention can be expressed by the governing body, an official, or a body to which the governing body delegates the authority.

Unassigned funds are technically available for any purpose. Carroll's consists of anticipated current year unassigned funds.

Carroll County Government implemented GASB Statement No. 54 starting with the fiscal period that ended June 30, 2011.

Stabilization Arrangement Policy Resolution

- **Purpose:** It is in the best interest of the citizens of Carroll County that a portion of the General Fund balance be set aside in a Stabilization Arrangement in order to provide a reserve against certain specified conditions. These include a sudden and unexpected drop in revenues, and or unforeseen emergencies including unanticipated expenditures of a nonrecurring nature. Also, Stabilization Arrangement will provide a financial cushion against unanticipated adverse financial or economic circumstances that would lead to budget deficits.
- **Authority to Establish a Stabilization Arrangement:** The Board of County Commissioners shall authorize the establishment of a Stabilization Arrangement by Resolution to adopt the Stabilization Arrangement Policy.

The Board of County Commissioners hereby authorizes the Comptroller and the Director of Management and Budget to establish the Stabilization Arrangement.

The Stabilization Arrangement will be continuing and non-lapsing.

- **Stabilization Arrangement Size:** The Stabilization Arrangement must be a minimum of 5 percent of the upcoming fiscal year Adopted General Fund Budget.

  The Stabilization Arrangement is in addition to the Surplus Funds as outlined in 3-601, 19 in the Code of Public Laws.

- **Contributions to the Stabilization Arrangement:** The Board of County Commissioners authorizes the Comptroller and the Director of Management and Budget to maintain a minimum balance of 5 percent of the upcoming fiscal year Adopted General Fund Budget.

  The Comptroller must transfer the contributions from the General Fund to the Stabilization Arrangement after the Budget is adopted for the upcoming year but before the end of the current fiscal year.

- **Conditions under which Stabilization Arrangement may be spent:** Appropriations from the Stabilization Arrangement shall require a Resolution from the Board of County Commissioners. No appropriation from the Arrangement will occur without prior presentation to the Board of County Commissioners by the Comptroller and Director of Management and Budget with a plan and timeline for replenishing the Arrangement to its minimum 5 percent level.

  Requests for appropriations from the Stabilization Arrangement shall occur only after exhausting current year's budgetary flexibility and spending of the current year's appropriated contingency.

  Circumstances where the Stabilization Arrangement can be spent are:

  1.) Unanticipated General Fund revenues in total will fall more than 1 percent below the original projected revenues, and Actual revenues for two of the following major revenue sources are projected in the current year to fall below the actual amount from the prior year:
      a.) Property Taxes
      b.) Income Tax
      c.) Recordation Tax
      d.) State Shared Taxes
      e.) Investment Interest

  2.) The following events create significant financial difficulty for the County and are in excess of the current year's appropriated contingency:
      - Declaration of a State of Emergency by the Governor of Maryland

- Unanticipated expenditures as a result of legislative changes from State/Federal governments in the current fiscal year
- Acts of Terrorism declared by the Governor of Maryland or the President of the United States
- Acts of Nature which are infrequent in occurrence and unusual in nature.

Fund Balance History

	FY 10	**FY 11**	**FY 12**	**FY 13**	**FY 14**
Budget	$349.0	$350.3	$350.3	$361.7	$367.1
Fund Balance (unassigned)	$8.0	$16.8	$14.8	$16.2	$6.9
% of Budget	**2.29%**	**4.80%**	**$4.22%**	**4.48%**	**1.88%**

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.