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# Budget Policy

## County of Bedford, Virginia

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### I. Purpose

The budget policy is designed to help decision makers make informed decisions about the provision of services and capital assets, and to promote stakeholder participation in the process. This policy prescribes the procedures and requirements of the budget development process, including the adoption of the Capital Improvements Plan (CIP). The budget policy also prescribes the procedures and requirements of the budget management process.

### II. Guiding Principles

The annual budget shall:

- A. Be prepared, considered, adopted, and executed in accordance with the Code of Virginia.
- B. Be balanced with estimated revenues, including the use of fund balance, meeting planned expenditures.
- C. Reflect best budgeting practices and adhere to the County's mission statement, long-range strategic plans, and current initiatives.
- D. Be adopted in accordance with generally accepted accounting principles (GAAP) for governmental funds. Proprietary fund budgets shall be adopted in accordance with GAAP, except that the budget recognizes the flow of funds (i.e. payment of debt principal is budgeted while depreciation is not budgeted).
- E. Include Reserve for Contingencies in the General Fund at an amount equal to at least 0.5% of the General Fund budget, net of transfers to the Capital Improvements Fund and Vehicle Replacement Fund.
- F. Be accompanied by a Five-Year Capital Improvement Plan.

### III. Basic Concepts

#### A. Fiscal Year and Accounting Periods

Operating funds (non-grant and non-capital) are budgeted and tracked on a fiscal year basis. The fiscal year (FY) begins on July 1 and ends on June 30 and is identified by the year in which the fiscal year ends. For example, the fiscal year beginning on July 1, 2023 and ending on June 30, 2024 is called FY2024.

Within a fiscal year, there are 12 accounting periods, one for each month, starting with July as accounting period 1 and ending with June as accounting period 12. Financial activity sometimes occurs on a quarterly basis, representing 3-month periods. For example, July – September is the First Quarter, October – December is the Second Quarter, and so on.

#### B. Structurally Balanced Budget

Virginia code requires the County to adopt a balanced budget. However, a budget that may fit the statutory definition of a balanced budget may not be financially sustainable. Therefore, the County’s goal is to achieve and maintain a structurally balanced budget to support financial sustainability.

A structurally balanced budget is one in which all recurring expenditures are paid with recurring revenues and nonrecurring revenues pay for nonrecurring expenditures.

1. Revenues: (i.e., Funding Sources) are earnings that come into the County from an external source and include, but are not limited to, taxes, permits, and fees.
  - a. Recurring: the portion of revenues that can reasonably be expected to continue year to year with some degree of predictability. (e.g., property taxes)

- b. Nonrecurring: the portion of revenues that are unlikely to continue, making it imprudent to use them for recurring expenditures (e.g., settlement from a lawsuit, grants)
  - c. Reserves: the portion of revenues that is restricted for a specific use and for which there is no planned expenditure in the current budget. (e.g., the portion of Transient Occupancy Taxes restricted for Tourism use if planned tourism expenditures do not meet or exceed the restricted amount)
2. Expenditures: (i.e., Spending or Funding Uses) represent purchases and other costs paid out to a variety of entities (e.g., employee payroll, supply vendors, etc)
- a. Recurring: expenditures that appear in the budget each year to maintain or expand service levels. Common examples include salaries, benefits, and asset maintenance costs.
  - b. Nonrecurring: expenditures that do not continue from year to year. The County has a greater degree of flexibility to defer these costs. Capital asset acquisitions are a common example.

With the forgoing terms defined, the County strives to adopt a budget in which recurring revenues equal or exceed recurring expenditures. For a variety of reasons, true structural balance may not be possible at a given time. In such cases, using fund balance to balance the budget may be considered but only in the context of a plan (with a clearly defined timeline) to return to structural balance, replenish fund balance, and ultimately remediate the negative impacts of any other short-term balancing actions that may be taken.

### C. Budget Types – Operating vs Capital

- 1. Operating Budget: covers the day-to-day expenditures needed to deliver services to the community; expenditures are usually recurring and include, but is not limited to, items such as staff wages, office supplies, and utilities.

2. Capital Budget: covers long-term, high-cost investments, such as infrastructure and facilities; expenditures are usually nonrecurring and may span more than one fiscal year. The County's capital budget marks the first year of a Capital Improvement Program (CIP), which spans five years.

#### IV. Budget Cycle

The County's budget cycle begins each Fall with departmental CIP project requests and ends the following Spring with adoption of the next fiscal year's budget. The adopted budget exists for the duration of the fiscal year, July 1 to June 30. Budgets are monitored throughout the fiscal year by Finance and department managers. The adopted budget may be amended through reappropriation of balances or supplemental budget appropriations.

##### A. Budget Calendar

The following guidelines are used to establish the annual budget calendar and shall be established as part of the Board of Supervisors' meeting schedule:

1. The proposed operating budget and Five-Year Capital Improvement Plan (CIP) will be presented to the Board of Supervisors by the end of March.
2. Informational budget sessions and workshops will begin in February and continue, as needed, through adoption of the budget.
3. The Board of Supervisors shall hold a public hearing on property tax rates and the County's fee schedule, if applicable, no later than the fourth Monday in April. Unless the Board of Supervisors decides otherwise, a separate public hearing on the budget and Capital Improvements Plan shall be held on the same date.
4. The budget shall be adopted in accordance with applicable state-imposed deadlines.

If additional time is needed for (1) the formulation of the Superintendent’s preliminary budget, (2) action to be taken by the School Board relative to their budget request, (3) preparation or review of the County Administrator’s proposed budget, or (4) review and adoption of the budget by the Board of Supervisors, the budget calendar can be extended upon approval of the Board of Supervisors provided the budget is adopted in a timely manner as required by the Code of Virginia.

BUDGET AND PLANNING CALENDAR*	
Nov 20	Departmental CIP requests due
Nov 20 - Dec 31	Preparation of Administrator's proposed 5-Year CIP
Jan 5	Departmental operating budget requests due
Jan 5 - Feb 15	Preparation of Administrator's proposed operating budget
Feb 15 - Apr 15	Budget work sessions with Board of Supervisors
Apr 20	Tax rate and budget public hearings
May 15	Budget adoption
Jun 30	Current fiscal year ends
Jul 1	New fiscal year begins

*\*Dates are approximate and subject to change.*

**B. Budget Development Process – Capital Improvements Plan (CIP)**

*All dates are approximate and subject to change with Board approval.*

The County begins the budget development process for the 5-Year CIP on or about October 1 each year. The Finance Director distributes a memorandum of guidelines and deadlines, along with required forms and other supporting documentation, to department directors. For each capital project requested submitted, departments shall:

1. Complete a CIP Request Form
2. Provide quotes or other documentation to support the estimate project cost
3. Identify any on-going operational costs associated with the project

Departmental CIP requests are due to the Budget Analyst in Finance on or before November 20<sup>th</sup> each year. The Budget Analyst reviews all requests received and follows up with departments, as needed, and schedules departmental CIP review sessions in early December. Attending the CIP review sessions are the proposed Project Manager, Department Head, and CIP Budget Committee, which includes the County Administrator, Deputy County Administrator, Finance Director, Budget Analyst, Procurement Manager, and Accounting Manager.

After CIP review sessions are completed, the Budget Analyst drafts a proposed 5-Year CIP for the CIP Budget Committee's review, with adjustments and revisions being made, as needed. The Administrator's proposed 5-Year CIP is finalized no later than January 15 and presented to the Board of Supervisors for consideration in February. Board work sessions to review, discuss, and revise the Administrator's proposed 5-Year CIP continue until Board consensus is achieved.

C. Budget Development Process – Operating Budget

*All dates are approximate and subject to change with Board approval.*

The County begins the budget development process for the operating budget on or about December 1 each year. The Finance Director distributes a memorandum of guidelines and deadlines, along with required forms and other supporting documentation, to department directors. For each cost center, departments shall:

1. Complete a line-item budget request.
2. Provide quotes or other documentation to support the estimates, whenever possible/appropriate.
3. Provide justification for significant changes from the prior year's adopted budget.
4. Complete a Budget Summary & Significant Issues form.
5. Complete an Additional or Redeployed Position Request form, if requesting a new position or redeployment of an existing position.

The following guiding principles are to be used while developing operating budgets:

1. Operating budgets will be developed with a long-term, strategic plan perspective.
2. Streamlining of workflows will minimize the need for staff and provide opportunities to re-deploy vacant staff positions.
3. Variable personnel expenditures (i.e. part time, overtime, etc) and non-personnel expenditures will be managed efficiently.
4. Existing resources shall be reallocated to meet the highest priorities in each cost center.

Departmental operating budget requests are due to the Budget Analyst in Finance on or about January 5 each year. The Budget Analyst reviews all requests received and follows up with departments, as needed, and schedules departmental operating budget review sessions in mid- to late- January. Attending the operating budget review sessions are the Department Head and Operating Budget Committee, which includes the County Administrator, Deputy County Administrator, Finance Director, Budget Analyst, and Accounting Manager.

After operating budget review sessions are completed, the Budget Analyst drafts a proposed operating budget for the Operating Budget Committee's review, with adjustments and revisions being made, as needed. The Administrator's proposed operating budget is finalized no later than February 15 and presented to the Board of Supervisors through a series of budget work sessions held between February 15 and April 15.

#### D. Revenues

The County will strive to maintain a diversified and stable revenue system to shelter the organization from fluctuations in any single revenue source and

ensure its ability to provide ongoing service. Annual revenue streams consist of local, state, and federal sources. County staff will provide revenue estimates for the next fiscal year based on historical data, current economic conditions, and future economic projections.

Where possible, the County institutes user fees and charges for providing specialized programs and services. Established rates are intended to recover operational costs, indirect costs, and capital or debt service costs. As part of the budget development process, County staff shall produce an annual Fee Compendium to be adopted by the Board of Supervisors at the same time as the adoption of the tax rates, unless otherwise direct by the Board. The Fee Compendium will list all fees and charges imposed by the County for providing specialized programs and services and will provide details on the type of fee, authority to levy the fee, current fees, and proposed changes.

#### E. Budget Adoption

*All dates are approximate and subject to change with Board approval.*

The Administrator's proposed operating budget and proposed 5-Year CIP are presented to the Board of Supervisors through a series of budget work sessions, beginning in January with the presentation of the proposed 5-Year CIP. Once Board consensus is achieved on the 5-Year CIP, the first year of the CIP is incorporated into the proposed operating budget as the annual capital budget. If necessary, a public hearing is held no later than the fourth Monday in April to review property tax rates and the County's fee schedule. Typically, a separate public hearing is held on the same date to review the proposed operating budget and 5-Year CIP. The Board of Supervisors adopts the next fiscal year's operating budget and the 5-Year CIP no later than May 15 each year.

The budget shall be legally enacted through adoption and appropriation resolutions for all fund types with the resolution appropriating budget amounts by department for the General Fund (110) and Vehicle Replacement Fund (115), by grant for the Grants Fund (111), by project for the Capital Improvement Fund (133), and by fund for all other budgetary funds, including the Law Library Fund (123), Nursing Home Fund (554), Solid Waste Fund (555), and the School Board budget.



## V. Budget Amendments

### A. General Authority

All budget amendments that increase the County's total appropriated budget shall require approval of the Board of Supervisors. Public hearings and associated notice for budget amendments shall be conducted in accordance with applicable statutes. For purposes of determining the approval authority required for budget amendments, the following category definitions apply:

1. Personnel is defined as salaries and benefits.
2. Operating is defined as all expenditures not in the personnel or capital category.
3. Capital is defined as the Capital Improvements Plan (CIP), as well as capital line items within other funds.
4. Debt is defined as principal, interest, issuance costs and other associated debt service-related expenditures.

For purposes of this section, budget transfer authority applies across all funds. Any transfers within the County Administrator's authority may be delegated to the Deputy County Administrator or Finance Director at the County Administrator's discretion.

1. Transfers of Contingency Funds shall be approved as follows:
  - a. \$25,000 or less per topic or issue - County Administrator
  - b. More than \$25,000 per topic or issue - the Board of Supervisors
2. Budget transfers shall be approved as follows:
  - a. Personnel, Capital and Debt categories (transfers that **do not move across categories**) - County Administrator

- b. All transfers in the Operating category or that **move across categories**:
  - i. Up to \$65,000 per topic or issue – County Administrator
  - ii. \$65,000 or more per topic or issue – the Board of Supervisors

B. Reappropriation of Balances

Appropriations remaining as fiscal year end shall be reappropriated as follows:

1. All outstanding purchase order encumbrances, operating and capital, as of June 30 of each fiscal year shall not lapse and shall be reappropriated to the next fiscal year, beginning July 1, to the same cost center and account for which they are encumbered in the previous year.
2. Department heads and constitutional officers may request reappropriation of unencumbered operating appropriations. Requests must meet one or more of the following criteria to be considered for approval:
  - a. Goods or services were approved in the existing budget but due to time constraints, the goods or services were either not received or were received but not paid during the existing fiscal year.
  - b. Goods or services were not included in the existing or next year's budget because the need for the goods or services was unknown. The need is critical or emergent and cannot wait until the next budget cycle for funding.

Requests are reviewed by Finance and a list of recommendations is prepared based on the above criteria. The list is submitted to County Administration for a final review before recommendations are given to the Board of Supervisors for approval.

3. The County Administrator is authorized to reappropriate funds from any designated revenues or donated funds.
4. Appropriations previously designated for capital projects do not lapse on June 30 and shall remain appropriated until the completion of the project if funding is available from all planned sources, or until the Board of Supervisors changes or eliminates the appropriation by resolution. Upon completion of a capital project, the County Administrator is hereby authorized to close out the project and transfer funds to other capital projects as allowed by Section 5A (Budget Amendments – General Authority) of this manual or return funds to the original funding source.
5. The approval of the Board of Supervisors of any grant funds to the County shall constitute the appropriation of both the revenue to be received from the grant and the County’s expenditure required by the terms of the grant, if any. Appropriation of grant funds shall not lapse on June 30 and shall remain appropriated until completion of the grant or until the Board of Supervisors changes or eliminates the appropriation by resolution. The County Administrator is authorized to:
  - a. Increase or reduce any grant appropriation to the level granted by the granting agency during the fiscal year.
  - b. Approve necessary accounting transfers between cost centers and funds to enable the grant to be accounted for in the correct manner.
  - c. Close out the grant and return any remaining funds to the original funding source.
6. Except for those balances identified above or reappropriated by the Board of Supervisors, appropriations shall lapse on June 30.

### C. Supplemental Appropriations

1. Appropriations are authorized for the State Forfeited Asset fund (124) and the Federal Forfeited Asset fund (120) equal to the total cash balance

on hand on July 1 each fiscal year plus the total amount of receipts collected during the fiscal year beginning July 1.

2. Supplemental appropriations must be approved by the Board of Supervisors unless otherwise stated in this policy. Requests for supplemental appropriations shall be submitted to Finance along with supporting documentation that identifies the following:
  - a. Anticipated expenditure, including cost estimates and a narrative describing the project/expenditure and how it will benefit the organization or citizens of the County.
  - b. Local funding required, if any.
  - c. External funding, if any, to be received, including a reimbursement schedule, or if external funds have already been received, include proof that the funds have been deposited with the Treasurer.
  - d. Any ongoing costs associated with the project that will impact future budgets.

After Finance reviews, the request shall be submitted in the agenda management system for the appropriate Board of Supervisors meeting. Funds become available upon the latter of Board approval or the availability of funds.

## **VI. Budget Monitoring**

The County will maintain a budget control system and staff will monitor and evaluate expenditures and revenues as compared to budget and/or prior year-to-date reports. Monitoring and evaluation activities and responsibilities are ongoing and include, but are not limited to, the following:

- A. Department heads and constitutional officers should review monthly a YTD Budget Report for those revenues and expenditures for which they are responsible. Any questions related to this review should be directed to the department's assigned accountant for further review and discussion.
- B. The Budget Analyst should review quarterly a YTD Budget Report for all revenues and expenditures. Any concerns arising from this review should be researched, discussed with the appropriate department, and reviewed with the Finance Director.
- C. Quarterly CIP review sessions are conducted to review the status of existing CIP projects, verify the continued need for future projects, and discuss potential new projects. A progress summary shall be prepared by the Budget Analyst and presented to the Board of Supervisors by the Finance Director.
- D. The Finance Director shall prepare quarterly financial reports for County Administration and the Board of Supervisors. Reports will compare actual revenues and expenditures to budgeted revenues and expenditures and to prior year actual revenues and expenditures as of the same date. Explanations will be provided for significant variances as determined by the Finance Director or requested by the County Administrator or Board of Supervisors.

If necessary, supplemental appropriations and budget transfers will be completed based on these budget monitoring activities as allowed by Section V (Budget Amendments) of this policy.