

## Reader's Guide to the Budget

### Purpose

This budget document summarizes all Service Area programs provided by Union County government and represents the annual plan for the allocation of resources. The budget presented covers the period of July 1, 2014, to June 30, 2015 ("Fiscal Year 2015").

### Summary Format

For each Service Area, a Service Area Resource Summary report is provided for revenues, expenditures, and staffing for FY 2009 – FY 2013 actual figures; the FY 2014 revised budget; and the adopted FY 2015 budget. For each Division within a Service Area, a Division Resource Summary is provided and includes similar information.

### Full-time Equivalent Positions

Personnel information includes the authorized number of full-time equivalent (FTE) positions in the Service Area, Division or Fund. FTE position count calculates staffing levels by the number of hours worked relative to a standard working schedule of 2,080 hours per year. For instance, a part-time position for 20 hours per week, or 1,040 hours per year, is considered 0.50 FTE.

### Budget Process

The annual budget process commences in the fall of the preceding year, with the distribution of the Budget Instruction Manual and the development of the Budget Calendar. The calendar establishes the time lines for the process, including the date of submission of Service Area requests, budget work sessions and public hearings that lead to final adoption of the Operating and Capital Budget Ordinance.

Service Area requests are based on guidance from the Budget Instruction Manual and annual training for key staff involved in the budget preparation. A modified zero-based budgeting model is used to prepare the budget. This concept consists of building the cost from the ground up. Core concepts for budget development include the following:

- Fiscal Sustainability – Building Long-Term Financial Solutions
- Transparency
  - Internally through communications and documentation
  - Externally through document design
- Stewardship – maximizing available resources
- Responsiveness –using a dynamic service model
- Balance – both financially and in service delivery

### Board of Commissioners' Authorization and Appropriations

In compliance with the *North Carolina Local Government Budget and Fiscal Control Act* (G.S. 159-8) the Board of Commissioners adopts an annual balanced budget ordinance for all governmental and proprietary funds except funds authorized by project ordinances. All budget ordinances are prepared on the modified accrual basis of accounting. The annual budget for governmental funds and proprietary funds must be adopted no later than July 1. Agency funds are not required by state law to be budgeted. All capital projects funds and certain special revenue funds and expendable trust funds are budgeted under project ordinances spanning more than one fiscal year and are controlled by project. Project appropriations continue until the projects are complete.

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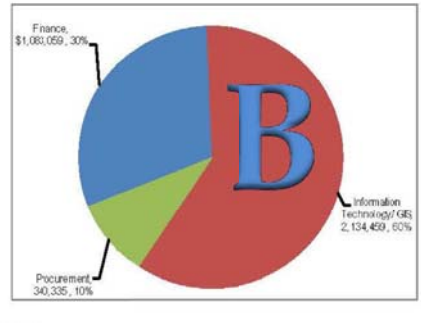
**Administrative Services**

**Service Summary**

Administrative Services consists of the following Divisions

- **Finance** - Responsible for accounting, financing, and cash management activities for the County. Responsibilities also include safeguarding the County's assets, managing the County's investment portfolio, debt management, accurate and timely financial reporting, and providing financial support to County departments and divisions.
  - **Budget** - Budget services focus on planning, preparing and monitoring the County's operating and capital budgets; reviewing the efficiency of County activities; and providing assistance to the County Manager and other departments in management planning and evaluation. The Budget Office prepares the Annual Operating Budget and the Capital Improvement Plan (6 Year CIP); and also performs special financial studies and analysis.
- **Information Technology** - Provides seven core services which are, applications, GIS, telecommunications, operations, desktop computers and peripherals, data networks and storage and technology management.
- **Procurement** - Focus on providing an efficient and effective process in meeting the County's procurement needs. This division area assists departments with contracting for high dollar or high volume purchases, providing a process to purchase small dollar items efficiently (purchasing cards, purchase orders, etc.), and incorporate the use of technology to facilitate the procurement bid and RFP processes.

Administrative Services Divisions	FY 2015	
	Proposed	Percent
Finance	\$ 1,083,059	30.4%
Information Technology/ GIS	2,134,459	60.0%
Procurement	340,335	9.6%
<b>Total Division Expenditures</b>	<b>\$ 3,557,853</b>	<b>100.0%</b>



**A - Service Summary** - The services provided by Union County are organized into Service Areas. Most Service Areas include several Service Divisions.

The Service Summary provides an explanation of the Service Area, Service Area Divisions, and the respective services that each provides to the citizens, businesses, and organizations of the County, as well as other internal Service Areas.

**B - Service Area Graph** - The graph provides a FY 2015 expenditure breakdown of the Service Area by its Divisions.

**C - FY 2014-2015 Opportunities** - This narrative outlines the Fiscal Year 2014-2015 (FY 2015) opportunities for the Service Area and its Divisions.

TH

**FY 2014-2015 Opportunities**

- Finance**
  - Adjust and improve the County's debt portfolio.
  - Provide timely, meaningful financial reporting in an effort to supply County departments' meaningful Management tools.
  - Provide analysis and suggestions for efficiencies year round.
  - Provide in house training to County staff on all facets of budget development and preparation.
- Information Technology**
  - Replace the County's present phone switches. The migration from the present phone switches to the new VOIP (voice over internet protocol) phone system will provide for much greater functionality for the internal users which will enable them to provide better service to the public.
  - Expansion of Electronic Content Management (ECM or document imaging) to other departments is another opportunity to bring greater efficiencies to the users in Union County, as well as the public. As the implementation within the Department of Social Services will be nearing completion, Information Systems will strive to make ECM available to the other departments.
- Purchasing and Contract Administration**
  - Renewed focus on procurement and purchasing procedures ensuring not only the lowest cost pricing and/or best value, but fairness in the process.
  - Renewed focus on contract administration ensuring the efficiency and effectiveness of the contract management process.

**Goals and Objectives**

- Finance**
  - Produce interim financial statements.
  - Develop & improve financial expenditure control framework for county-wide expenditure controls.
  - Develop a long-term financial plan and update the County's strategic plan.
  - Produce a Popular Annual Financial Report (PAFR)
  - Update Financial Policy
  - Create Governmental Debt Capacity and Feasibility Studies.

- Continue to receive Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.
- Continue to receive Government Finance Officers Association Distinguished Budget Presentation Award.
- Continue to produce Monthly Management Report.
- Information Technology**
  - Expand Electronic Content Management capabilities (document imaging) to additional departments.
  - Start implementation of SharePoint technology to enable and enhance collaboration within the County.
  - Improve the five-year desktop replacement program.
- Procurement**
  - Complete Union County Purchasing Policy and Procedures.
  - Develop, in conjunction with the Legal Department, standardized Union County contracts.
  - Conduct organizational training concerning Purchasing and Procurement guidelines, procedures, and processes.

**Related Capital Projects**

- Information Technology**
  - I.T. Infrastructure - includes County-wide Document Imaging Program and Phone System Upgrade to VoIP.
  - Storage Area Network Replacement (SAN).

**Personnel Summary**

- Procurement will hire a procurement buyer in FY 2015 due to the needs of Public Works. Public Works will fund this position with a transfer to Administrative Services through an Internal Service Fund charge.

**D - Goals and Objectives** - This narrative lists and/or describes the goals and objectives of the Service Area and its Divisions.

**E - Related Capital Projects** - This narrative lists and describes Capital Improvement Plan programs and/or projects that are related to the Service Area and its Divisions, if applicable.

**F - Personnel Summary** - This narrative describes the personnel changes from FY 2014 to FY 2015 by Service Area and Divisions.





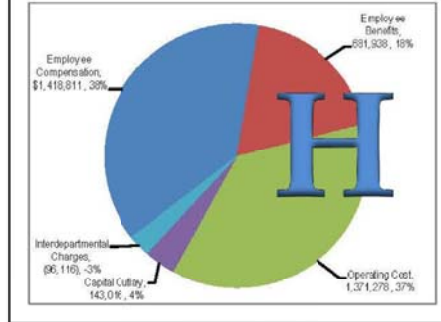
**F - Personnel Summary** (continued) -The table provides full time equivalent (FTE) information by Service Area and Divisions for FY 2013 Actual (prior fiscal year actual), FY 2014 Revised (current fiscal year as revised), FY 2015 (next fiscal year), and the FY 2015 Percent (percentage weight) by Division Area. The graph provides a FY 2015 breakdown of FTE's of the Service Area by its Divisions.

**G - Revenue Highlights**

- The narrative describes the revenue typically generated by the Service Area and notes significant revenue changes from FY 2014 to FY 2015, if applicable.
- The table lists the FY 2015 Proposed and/or Adopted projected revenue amounts and the Percent (percentage weight) by revenue category (type).

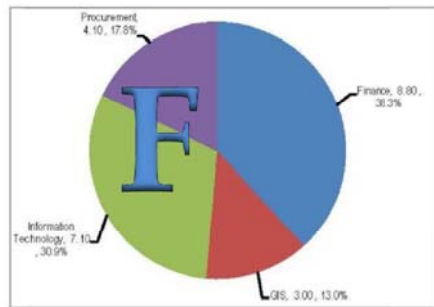
- Operating costs increased by 28.66 percent from \$59,123 to \$76,067 in FY 2015, due to maintenance agreements printing and office supplies, and added technology operating charges.
- Employee benefits increased by 38.13 percent, from \$80,658 to \$111,111 in FY 2015. The increase is a function of increased Other Post-Employment Benefits and the addition of the new Public Works procurement position.

Administrative Services	FY 2015	
	Proposed	Percent
<b>EXPENDITURES</b>		
Employee Compensation	\$ 1,418,811	39.9%
Employee Benefits	681,938	19.2%
Operating Cost	1,371,278	38.5%
Capital Outlay	143,016	4.0%
Interdepartmental Charges	(96,116)	-2.7%
Other Budgetary Accounts	38,926	1.1%
<b>Total Expenditures</b>	<b>\$ 3,557,853</b>	<b>100.0%</b>



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Administrative Services	FY 2013 Actual	FY 2014 Revised	FY 2015 Proposed	FY 2015 Percent
<b>Personnel FTE Summary</b>				
Finance	8.80	8.80	8.80	38.26%
GIS	3.00	3.00	3.00	13.04%
Information Technology	8.10	7.10	7.10	30.87%
Procurement	3.10	3.10	4.10	17.83%
<b>Total FTE's</b>	<b>23.00</b>	<b>22.00</b>	<b>23.00</b>	<b>100.00%</b>



**Expenditure Highlights**

- Finance**
- Compensation increased by 2.51 percent, from \$551,700 to \$565,555 in FY 2015, due to turnover and replacement
  - Benefits increased by 11.08 percent, from \$246,465 to \$273,784 in FY 2015, due to turnover and replacement.
  - Educational expenses increased by 65.07 percent, from \$7,560 to \$7,940 in FY 2015, due to increased staff training and greater educational opportunities.

**Information Technology**

- Total expenditures increased by 725 percent, from \$1,990,216 to \$2,134,159 in FY 2015 overall (including the GIS and Telephone budget).
- Compensation increased by 29 percent, from \$568,549 to \$604,283 in FY 2015.
- Expenditures for computer equipment increased from \$126,700 to \$140,110 in FY 2015, due to the completion of the implementation of the County's five-year desktop replacement plan.
- Capital Outlay expenditures increased from \$26,699 to \$143,016 in FY 2015, due to the replacement of office furniture and equipment.
- Expenditures for maintenance agreements decreased from \$578,256 to \$568,436 in FY 2015, due to extensive software renewals, including Microsoft Office license renewals.

**Procurement**

- Budgeted expenditures increased by 20.71 percent, from \$291,977 to \$352,460 in FY 2015 due to a new position that will focus specifically on Public Works procurement, which is funded through a reimbursement from Public Works.
- Compensation increased by 31.80 percent, from \$188,896 to \$248,973 in FY 2015, and is offset by an interdepartmental charge from Public Works for the new procurement position.



**H - Expenditure Highlights**

- The narrative describes the expenditures by the Service Area and its Divisions and notes significant expenditure changes from FY 2014 to FY 2015, if applicable.
- The table lists the FY 2015 Proposed and/or Adopted projected expenditure amounts and the Percent (percentage weight) by expenditure category. Once the overall Service Area expenditure amount is adopted by the Board of Commissioners, it is the maximum allowed, unless it is amended by the BOCC or is amended per the FY 2015 Operating and Capital Budget Ordinance.
- The table lists the FY 2015 Proposed and/or Adopted projected expenditure amounts and the Percent (percentage weight) by expenditure category (type).

**Revenue Highlights**

The Administrative Services Department generates revenue through internal service fund transfers for non-enterprise charges for service.

Administrative Services	FY 2015	
REVENUE	Proposed	Percent
Non-Enterprise Charges For Services	\$ 2,135,044	100.0%
<b>Total Revenue</b>	<b>\$ 2,135,044</b>	<b>100.0%</b>



Service Area Name

**Administrative Services**

**Service Area Category Summary**

Revenue Categories

Category	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Revised	FY 2015 Proposed	Change	% Change
<b>REVENUE</b>									
Non-Enterprise Charges For Services	-1,128	-743	-426	-461	-670	-540	-835	-295	54.63%
Other Revenue	0	0	0	0	-770	0	0	0	0.00%
Internal Service Fund Charges	0	0	0	0	0	0	-2,134,209	-2,134,209	0.00%
<b>Total REVENUE</b>	<b>-1,128</b>	<b>-743</b>	<b>-426</b>	<b>-461</b>	<b>-1,440</b>	<b>-540</b>	<b>-2,135,044</b>	<b>-2,134,504</b>	<b>395278.52%</b>

Expenditure Categories

<b>EXPENDITURES</b>									
Employee Compensation	1,162,815	1,069,519	1,083,009	1,054,555	1,096,165	1,309,145	1,418,811	109,666	8.38%
Employee Benefits	396,849	374,328	460,796	480,721	510,661	595,655	681,938	86,883	14.60%
Operating Cost	1,027,221	898,506	863,466	921,221	985,650	1,462,477	1,371,278	-91,199	-6.24%
Capital Outlay	327,033	9,882	40,561	12,000	3,000	45,924	155,141	109,217	237.82%
Interdepartmental Charges	-83,796	-81,133	-77,506	-71,271	-72,058	-88,329	-96,116	-7,787	8.82%
Other Budgetary Accounts	0	0	0	0	0	0	38,926	38,926	0.00%
<b>Total EXPENDITURES</b>	<b>2,830,122</b>	<b>2,271,102</b>	<b>2,370,326</b>	<b>2,397,234</b>	<b>2,523,419</b>	<b>3,324,272</b>	<b>3,569,978</b>	<b>245,706</b>	<b>7.39%</b>

Full-Time Equivalent Breakdown

<b>Total Service Area Revenue (Over)/Under Expenditures</b>									
	2,828,994	2,270,359	2,369,900	2,396,773	2,521,978	3,323,732	1,434,934	-1,888,798	-56.83%
<b>Full-Time Equivalent Breakdown</b>									
Full-Time	18.00	18.00	18.00	18.00	23.00	22.00	23.00	1.00	4.55%
Temp-Part-Time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%
<b>Total Administrative Services</b>	<b>18.00</b>	<b>18.00</b>	<b>18.00</b>	<b>18.00</b>	<b>23.00</b>	<b>22.00</b>	<b>23.00</b>	<b>1.00</b>	<b>4.55%</b>

Total Revenue for the specified Fiscal Year

Total Expenditures for the specified Fiscal Year

Total Revenue (over)/ under Expenditures for the specified Fiscal Year

Service Area FTE count for the specified Fiscal Year

Amount change from FY 2014 to FY 2015

Percentage change from FY 2014 to FY 2015





**Finance**

**Mission**

To serve the residents of the County by effective coordination of the fiscal management of the County and efficiently providing timely, responsive and comprehensive financial support services to the County departments.

**Service Summary**

- The Finance Division is responsible for accounting, budgeting, financing, procurement, contracting, and cash management activities for the County. Responsibilities also include safeguarding the County's assets, managing the County's investment portfolio, debt management, accurate and timely financial reporting, and providing financial support to County departments and divisions.
- The Division coordinates preparation of the Annual Budget, monitors budget compliance, coordinates the annual audit conducted by an outside independent audit firm, and prepares and issues the Comprehensive Annual Financial Report.
- Accounting services focus on maintaining the County's financial records and preparing annual financial statements. This is done in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) pronouncements. This service area also includes the responsibility for cash management and supports County Departments by processing specialized billing, cash receipting, accounts payable, and other accounting services.
- Budget services focus on planning, preparing and monitoring the County's operating and capital budgets; reviewing the efficiency of County activities; and providing assistance to the County Manager and other departments in management planning and evaluation. This Budget service area prepares the Annual Operating Budget and the Capital Improvement Plan (6 Year CIP); and also performs special financial studies and analysis.
- Reporting Services monitors and reports key financial positions, revenues, expenditures and balances of individual funds on a monthly basis.

**FY 2014-2015 Opportunities**

- As the economic landscape continues to change, there continue to be fewer opportunities to improve the County's debt portfolio. For FY 2015, the adopted budget reflects a reduction in debt service. This is partially due to the retirement of debt, but is also largely due to the direct efforts of the Finance staff to aggressively seek savings through refunding of debt.
- Coordinate with Public Works to identify the direction of capital funding needs, fund balance and capital improvement plan.
- Request visits from the Rating Agencies for annual reviews of the County's General Obligation and Revenue Bonds, and discuss expectations, CIP, and debt planning.
- Better financial information is critical to managing large organizations. Finance has the opportunity to improve other departments' management through providing timely, meaningful financial reporting.
- Analysis and improvement, new staff in Finance will improve the division's capabilities to provide analysis and suggestions for efficiencies year-round.
- The modified zero-base budget process used in preparing the FY 2014 Adopted Budget was an unprecedented process in the County. There are a number of areas where the process can be improved. This will be undertaken in the FY 2015 budget process.

**I - Mission -** The services provided by Union County are organized into Service Areas and Divisions within each Service Area. This narrative provides the mission statement of the specified Division of the Service Area.

**J - Service Summary -** The services provided by Union County are organized into Service Areas and Divisions within each Service Area. The Service Summary provides an explanation of the services that the specified Division provides to the citizens, businesses, and organizations of the County, as well as other internal Service Areas.

**K- FY 2014-2015 Opportunities -** This narrative outlines the Fiscal Year 2014-2015 (FY 2015) opportunities for the Division.

**L - Goals and Objectives -** This narrative lists and/or describes the goals and objectives of the Division.

**M - Related Capital Projects -** This narrative lists and describes Capital Improvement Plan programs and/or projects that are related to the Division, if applicable.

**N - Revenue Highlights -** The narrative describes the revenue typically generated by the Division and notes significant revenue changes from FY 2014 to FY 2015, if applicable.

**O - Expenditure Highlights -** The narrative describes the expenditures by the Division and notes significant expenditure changes from FY 2014 to FY 2015, as applicable.

**Goals and Objectives**

- Document procedures and business processes, while evaluating efficiency.
- Cross-train employees.
- Provide training regarding new accounting standards.
- Produce interim financial statements.
- Implementation of paperless document archiving.
- Develop internal expenditure control framework for county-wide expenditure controls.
- Evaluate and update established county-wide financial policies.
- Evaluate and update established county-wide financial procedures.
- Develop a long-term financial plan and update the County's strategic plan.
- Produce a Popular Annual Financial Report (PAFR)
- Update Financial Policies
- Create Governmental and Utility Debt Capacity and Feasibility Studies.
- Continue to receive Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting
- Continue to receive Government Finance Officers Association Distinguished Budget Presentation Award.
- Continue to produce Monthly Management Report.

**Related Capital Projects**

The Finance Department does not have capital projects in FY 2015.

**Revenue Highlights**

The Finance Department does not generate revenue.

**Expenditure Highlights**

- Budgeted expenditures increased by 3.93 percent from \$1,042,079 to \$1,083,059 in FY 2015. This increase is reflective of...
- Compensation increased by 2.18 percent, from \$51,700 to \$565,555 in FY 2015, due to turnover and replacement.
- Benefits increased by 11.08 percent, from \$20,465 to \$273,784 in FY 2015, due to turnover and replacement.

- Educational expenses increased by 65.07 percent, from \$7,560 to \$7,940 in FY 2015, due to increased staff training and greater educational opportunities.

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Division Name	Finance										Division Category Summary	
Revenue Categories	Category	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Revised	FY 2015 Proposed	Change	% Change		
Expenditure Categories	<b>REVENUE</b>											
	Non-Enterprise Charges For Services	-313	-197	-238	-262	-330	-300	-350	-50	16.67%		
	Other Revenue	0	0	0	0	-770	0	0	0	0.00%		
	<b>Total REVENUE</b>	<b>-313</b>	<b>-197</b>	<b>-238</b>	<b>-262</b>	<b>-1,100</b>	<b>-300</b>	<b>-350</b>	<b>-50</b>	<b>16.67%</b>		
Full-Time Equivalent Breakdown	<b>EXPENDITURES</b>											
	Employee Compensation	522,821	498,359	489,830	446,128	500,659	551,700	565,555	13,855	2.51%		
	Employee Benefits	180,223	182,623	220,657	216,566	256,885	246,465	273,784	27,319	11.08%		
	Operating Cost	142,129	155,399	135,406	191,909	197,418	224,689	243,720	19,031	8.47%		
	Capital Outlay	0	0	0	12,000	3,000	19,225	0	-19,225	-100.00%		
	<b>Total EXPENDITURES</b>	<b>845,173</b>	<b>836,381</b>	<b>845,893</b>	<b>866,603</b>	<b>977,963</b>	<b>1,042,079</b>	<b>1,083,059</b>	<b>40,980</b>	<b>3.93%</b>		
	<b>Total Division Revenue (Ovr)/ Under Expenditures</b>	<b>844,860</b>	<b>836,184</b>	<b>845,655</b>	<b>866,341</b>	<b>956,863</b>	<b>1,041,779</b>	<b>1,082,709</b>	<b>40,930</b>	<b>3.93%</b>		
	<b>DIVISION FTE SUMMARY</b>											
	Full-Time	8.00	8.00	8.00	8.00	8.80	8.80	8.80	0.00	0.00%		
	Temp-Part-Time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%		
	<b>Total FINANCE DIVISION</b>	<b>8.00</b>	<b>8.00</b>	<b>8.00</b>	<b>8.00</b>	<b>8.80</b>	<b>8.80</b>	<b>8.80</b>	<b>0.00</b>	<b>0.00%</b>		

Position Titles for the specified Division

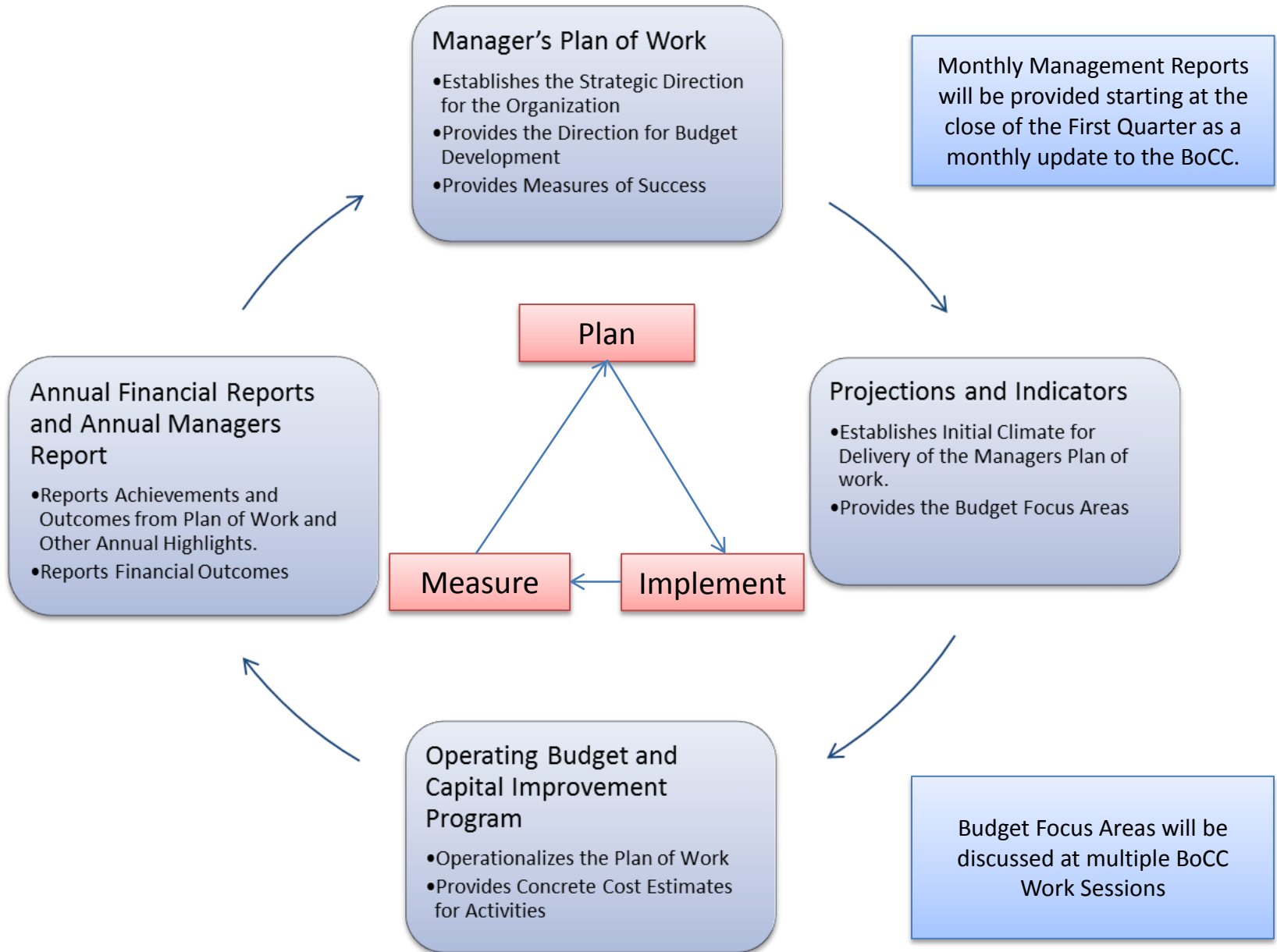
FINANCE DIVISION		Division Personnel									
GENERAL FUND		FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Revised	FY 2015 Proposed	Change	% Change	
Accounting Services Supervisor		1.00	1.00	1.00	1.00	0.00	0.00	0.00	0.00	0.00%	
Accounting Specialist		3.00	3.00	3.00	3.00	0.00	0.00	0.00	0.00	0.00%	
Accounting Technician		2.00	2.00	2.00	2.00	3.00	2.00	2.00	0.00	0.00%	
Administrative Assistant		0.00	0.00	0.00	0.00	0.00	1.00	1.00	0.00	0.00%	
Assistant Finance Director		1.00	1.00	1.00	1.00	0.00	0.00	0.00	0.00	0.00%	
Budget Manager		0.00	0.00	0.00	0.00	1.00	1.00	1.00	0.00	0.00%	
Cash & Debt Management Analyst		0.00	0.00	0.00	0.00	1.00	1.00	1.00	0.00	0.00%	
Controller		0.00	0.00	0.00	0.00	1.00	1.00	1.00	0.00	0.00%	
Executive Director of Administrative Services/CFO		0.00	0.00	0.00	0.00	0.80	0.80	0.80	0.00	0.00%	
Finance Director		1.00	1.00	1.00	1.00	0.00	0.00	0.00	0.00	0.00%	
Financial Analyst		0.00	0.00	0.00	0.00	2.00	1.00	1.00	0.00	0.00%	
Office Support TPT		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	
Senior Financial Analyst		0.00	0.00	0.00	0.00	0.00	1.00	1.00	0.00	0.00%	
<b>Total FINANCE DIVISION</b>		<b>8.00</b>	<b>8.00</b>	<b>8.00</b>	<b>8.00</b>	<b>8.80</b>	<b>8.80</b>	<b>8.80</b>	<b>0.00</b>	<b>0.00%</b>	

Total FTE count for the specified Fiscal Year

Amount change from FY 2014 to FY 2015

Percentage change from FY 2014 to FY 2015







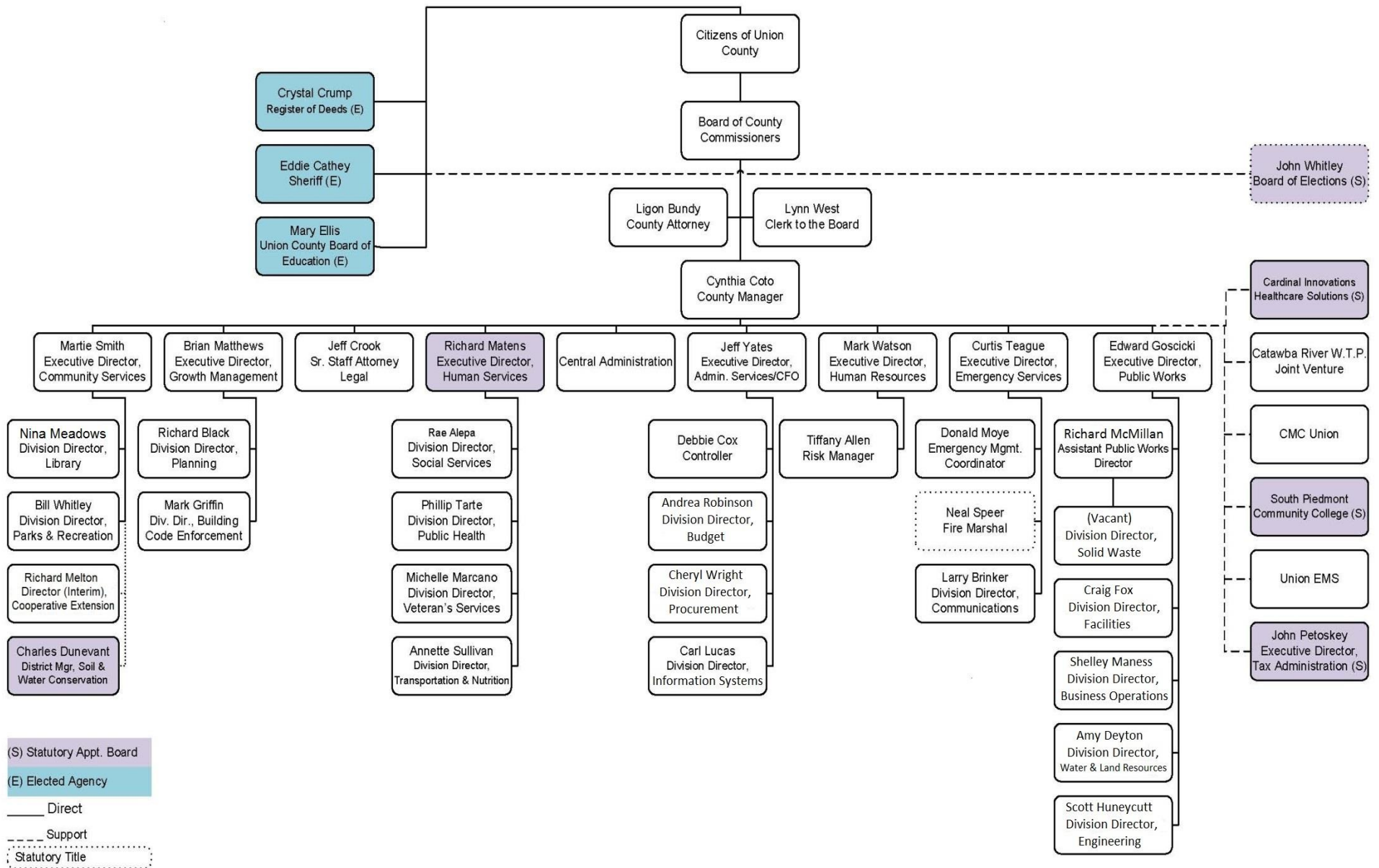
## Budget Calendar for Fiscal Year 2015

Date	Task
<b><u>December</u></b>	
December 9, 2013	Board of County Commissioners Budget Work Session - Manager's Plan or Work
<b><u>January</u></b>	
January 21, 2014	Board of County Commissioners Budget Work Session - Financial Projections Presentation
<b><u>February</u></b>	
February 17, 2014	Board of County Commissioners Budget Work Session - Growth Management and Economic Development
February 21-28, 2014	Service Area Budget Meetings with County Manager
<b><u>March</u></b>	
March 12, 2014	Service Area Budget Meetings with County Manager
March 17, 2014	Board of County Commissioners Budget Work Session - Sustainable UCPS Funding Model
March 26, 2014	Board of County Commissioners - Joint Work Session with UCPS Board of Education
<b><u>April</u></b>	
April 21, 2014	Board of County Commissioners Budget Work Session - Sustainable Water & Sewer Rate Plan
<b><u>May</u></b>	
May 9, 2014	Board of County Commissioners Budget Work Session - County Manager Presentation of Proposed County Services Budget
May 19, 2014	Board of County Commissioners - Public Hearing concerning Proposed Operating and Capital Budget for County services and the Proposed County Tax Rate
" "	Board of County Commissioners - Tentative Approval of Proposed County Services Budget
May 22, 2014	Board of County Commissioners - Joint Work Session with Board of Education - UCPS Local Funding Request
<b><u>June</u></b>	
June 2, 2014	Board of County Commissioners - Public Hearing concerning Union County Public Schools' (UCPS) Proposed Budget and Proposed Schools' Tax Rate
June 5, 2014	Board of County Commissioners Budget Work Session - Proposed FY 2015 Operating and Capital Budget
June 16, 2014	Board of County Commissioners - Public Hearing concerning Total Proposed FY 2015 Operating and Capital Budget and the Proposed County Tax Rate and Schools' Tax Rate
June 30, 2014	Board of County Commissioners - Adoption on Full FY 2015 Operating and Capital Budget Ordinance and Total Tax Rate





# Organizational Chart



(S) Statutory Appt. Board  
 (E) Elected Agency  
 — Direct  
 - - - Support  
 ····· Statutory Title



## Basis of Budgeting and Basis of Accounting

### Basis of Budgeting

All funds of the County are budgeted for and accounted for during the year on the modified accrual basis of accounting in accordance with North Carolina General Statutes. Under the modified accrual basis, revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the costs for goods or services are incurred (except for un-matured principal and interest on general long-term debt, which are recognized when due).

The County maintains encumbrance accounts under which purchase orders, contracts and other commitments are reserved against available appropriations.

The operating budget appropriation unit is defined as the Service Area within a given fund. The capital improvement budget appropriation unit is defined as defined as the program and is as outlined in "Attachment C - Capital Projects Ordinance", except as outlined in Section XXIII of the FY 2015 Operating and Capital Budget Ordinance (found in Section A of this document).

Any Service Area or agency appropriation increase must first be approved by the Board of County Commissioners. The County Manager is authorized to approve transfers of appropriations in an amount up to \$100,000 between appropriations units included in the budget ordinance. In addition, the County Manager may transfer, in amounts necessary, appropriation from all Reserves for Contingencies, within funds, except the General Fund Reserve for Contingencies, within the intent of the reserve as approved by the Commission. In accordance with the General Statutes for the State of North Carolina Chapter 159-15, a report of such transfers will be provided to the BOCC at its next regular meeting. Operating budget appropriations lapse at year-end.

### Applicable Financial Reporting Framework (Basis of Accounting)

Basis of accounting refers to how revenues and expenditures or expenses and related assets and liabilities are recognized in the accounts and reported in the combined financial statements.

The governmental funds (General Fund, Special Revenue and Capital Projects Funds) are also presented on a modified accrual basis in the combined financial statements in the Comprehensive Annual Financial Report (Financial Statements). The accounting records for the County's enterprise and internal service funds are reported on a full accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

The Financial Statements present the status of the County's finances on the basis of generally accepted accounting principles (GAAP). In most cases, GAAP presentation conforms to the County budget presentation. Exceptions are as follow:

- Compensated absences are accrued as earned by employees per GAAP as opposed to being expended when paid.
- Principal payments on long-term debt within the proprietary funds are applied to the outstanding liability on a GAAP basis as opposed to being expended on a budget basis.
- Capital Outlay within the Proprietary Funds is recorded as assets on a GAAP basis and expended on a Budget basis.
- Depreciation expenses are recorded on a GAAP basis only.
- The Financial Statements include fund expenditures and revenues on both a GAAP basis and a budgetary basis for comparison purposes.



## Capital Improvement Program Management Policy

### Objective

The purpose of the Capital Improvement Program (CIP) is to systematically identify, plan, schedule, finance, track, and monitor capital projects to ensure cost-effectiveness as well as conformance to established policies, procedures, and appropriations.

The performance and continued use of capital infrastructure is essential to delivering public services. Deferring essential maintenance and/or asset replacement can negatively impact service delivery and increase the long-term costs. As such, the County will periodically assess the condition of assets and infrastructure and appropriately plan for required major maintenance and replacement needs. Efforts will be made to allocate sufficient funds in the six-year CIP and operating budgets for condition assessment, preventative and major maintenance, and repair and replacement of critical infrastructure assets.

### Policy

- I. The CIP shall consist of all funds appropriated by the Board of County Commissioners for capital improvements either by county departments, external organizations, offices of county government, or outside agencies for which the County provides capital funding.
  - a. Capital improvement projects shall be defined as construction projects, renovation projects, property acquisition, and equipment purchases that cost at least \$100,000 and have a useful life of at least ten years.
    - i. For the purposes of the CIP, information technology projects of at least \$100,000 may be considered as capital improvement projects provided the useful life is at least five years.
    - ii. For the purposes of the CIP, fleet acquisition will be evaluated and recommended in accordance with fleet replacement procedures.
  - b. Minor capital outlay and equipment acquisition (less than \$100,000 or a useful life of less than ten years) shall be included in the operating budget.

- II. The County Manager, as the County's Budget Officer, shall annually submit a financially balanced, six-year Capital Improvement Program for review and approval by the County Commission, pursuant to the timelines established in the annual budget preparation schedule.
  - a. The CIP will be updated annually as part of the annual budget process.
  - b. The first year of the adopted CIP will be the capital budget for that year.
  - c. Submission of the CIP shall be consistent with the requirements established by North Carolina General Statutes Chapter 159.
  - d. The County Manager will develop necessary procedures and internal controls to develop and manage the implementation of the adopted CIP.
- III. The Capital Improvement Program shall include:
  - a. A Capital Improvement Program Message that provides a statement of CIP objectives and clearly demonstrates the program's relationship to the County's operating budget proposal and strategic and master plans.
  - b. Summaries of project request and funding sources that demonstrate the six-year Capital Improvement Program is balanced.
  - c. Detailed capital project descriptions to include the following:
    - i. Scope of the project that defines or describes the project.
    - ii. Justification for the project that clearly states the need and pertinent history.
    - iii. Estimated cost by project phase.
    - iv. Estimated funding by project.
    - v. Estimated operating budget impact by budget category.
    - vi. Estimated implementation schedule that provides for the coordination of project timing, construction, and funding.
    - vii. Identification of Managing Department.
  - d. Schedule of proposed and existing debt requirements.





Adopted November 19, 2012

- IV. Staff will monitor projects in progress to ensure their timely completion or identify needed adjustments of the CIP as approved by the Board of County Commissioners.
- a. The County Manager may make necessary transfers between phases and accounts within a project, however, transfers between projects, regardless of funding source, require Board of County Commissioner approvals.
  - b. Within ninety-days of the completion of a capital project any remaining appropriated funds for the project will revert to the fund balance of the funding source. Expenditure of excess funds may only occur by Board of County Commission action.
  - c. Appropriations for capital projects lapse three years after budget adoption if there is no progress on project implementation, as determined by the County Manger and recommended to Board of County Commissioners. Projects which lapse from a lack of activity may be resubmitted for inclusion in a future capital improvement program.
- V. Project expenditures and related accounting shall be in accordance with Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) requirements, and other bond and legal requirements.
- a. Project funding shall be in accordance with the County's Debt Policies and the North Carolina General Statutes Chapter 159.
  - b. The County Finance Officer will evaluate project funding and expenditures to ensure compliance and appropriate accounting in accordance with applicable policies, procedures, principles, and standards.
- VI. It is anticipated that new general obligation debt funded projects shall be voted by referendum.
- a. It is anticipated that new general obligation debt will be funded through increased tax rate, and that voter approval of general obligation debt represents a tacit approval of the accompanying tax rate.
  - b. It is anticipated that new general obligation debt matures; the associated tax rate will be reduced accordingly.

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## Debt Policy

Union County's Finance Director is charged with the responsibility for prudently and properly managing any and all debt incurred by Union County, (the "County"). The following policy provides the methods, procedures, policies and practices which, when exercised, ensure the sound fiscal management of the County's debt program.

### SCOPE

This policy applies to all debt issued or incurred by the County. This may include general obligation bonds, certificates of obligation/participation, limited obligation bonds, revenue bonds, capital leases, private placements, installment financings, and letters of credit.

### DEBT LIMITS

The net debt of the County, as defined in G.S. 159-55, is statutorily limited to 8% of the assessed valuation of the taxable property within the County. Total General Fund debt service will not exceed any limits imposed by the Local Government Commission (LGC). As a guide, formulas established by the LGC and rating agencies will be monitored and appropriately applied by the County. Debt service as a percentage of the General Fund operating budget should not exceed 15%

The County evaluates new debt issuance as it relates to the current debt level. The amount of debt retired each year is compared to the amount of debt to be issued any given year and an analysis performed to determine the community's ability to assume and support additional debt service payments. When appropriate, the issuance of self-supporting revenue bonds and other self-supporting obligations are also considered.

An objective, analytical approach is used to make the determination of whether debt is issued. The process compares generally accepted standards of affordability to the current values for the County. Those standards may include measures such as: debt per capita, debt as a percent of assessed value, debt service payments as a percent of current revenues and/or current expenditures, and the level of overlapping net debt of all local taxing jurisdictions.

## OBJECTIVES

### Legal and Regulatory Compliance

The County's debt policies and procedures are designed to ensure compliance with all State and Federal Law governing debt, including but not limited to, State Law, Federal Law, Internal Revenue Service rules and regulations, Securities and Exchange Commission ("SEC") regulations, Municipal Securities Rulemaking Board ("MSRB") regulations, court rulings, and existing debt covenants.

As a result of the importance of complying with all legal and regulatory requirements, the Finance Director and the County Attorney will coordinate all activities necessary to issue debt, including but not limited to:

- selection of bond counsel;
- review of ordinances and resolutions provided by bond counsel;
- review of all documents necessary to issue debt provided by bond counsel; and
- verify compliance with the North Carolina Local Government Commission (LGC)

### RESPONSIBILITY AND CONTROL

The ultimate responsibility and authority for issuing debt is approval by the County's governing body, the Union County Board of Commissioners. The Finance Director is charged with the responsibility for the appropriate management of the County's debt program. The Cash and Debt Management Analyst executes the day-to-day debt functions of the debt program following the policies and procedures as well as the guidance and recommendations of the Finance Director, the Senior Management, and Commissioners.

### SELECTION OF SERVICE PROVIDERS

#### Financial Advisor

The Finance Director provides recommendations to Senior Management and the Board for the selection of a financial advisor for the County's debt program. The financial advisor may perform the following duties including but not limited to: presenting all available financing alternatives, comprehensive analyses for debt refinancing,



recommendations for alternative financial structures, development of timing and sale of new issues, coordinating the market timing and pricing of debt securities, issuing and disseminating the bond offering documents and other disclosure requirements, coordinating with the underwriters of the bond issuance, seeking and coordinating ratings from the nationally recognized rating agencies, and providing guidance and advice about debt-related topics and the capital markets.

The recommendations to select a financial advisor will be based on the results of a formal request for proposal process. When the recommendation is made for Senior Management and Board approval, the basis for the recommendation will be submitted for review. The engagement of a financial advisor is implemented through the approval of a contract by the Union County Board of Commissioners that has a term of no more than five years.

### **Bond Counsel**

The Finance Director coordinates with the County Attorney and Senior Management on the selection of bond counsel for any issue. When the bond counsel has been selected, they are responsible for providing an opinion to investors in two specific areas: first, the bond counsel must assure investors that the securities are valid and legally binding obligations of the County. Second, the bond counsel will state whether the interest on the bonds is exempt or not from federal taxation. The bond counsel also prepares or supervises the preparation of all bond documents necessary to execute the bond issuance. The bond counsel is responsible for coordinating with the County Attorney's office, Clerk to the Board and Finance Office as well as the County's financial advisor to ensure that all tasks associated with the bond issuance are completed within prescribed timeframes.

### **Underwriters**

In a negotiated sale (See Methods of Sale), the Finance Director, after review with Senior Management, makes recommendations concerning underwriting firms to include in the underwriting syndicate. A diverse group of securities firms will be chosen based on past performance, demonstrated ability to resell, prior municipal issuance experience and other factors. While past demonstrated performance is the primary criteria for selection, within those criteria, the participation of historically underutilized businesses (HUBs) will be strongly encouraged.

The primary function of the underwriter is to purchase securities from the County and resell them to investors. Underwriters will be selected for each

issue based on the particular experience and expertise necessary for that issue. The underwriter's compensation (an "underwriter's discount") is a percentage of the amount of bonds sold and is negotiated for each issuance. When the amount of bonds to be issued exceeds twenty million dollars (\$20 million) the LGC requires a Co-Manager Underwriting firm in addition to the primary Underwriting firm (Senior Managing Underwriter). Underwriter's employ their own Counsel.

### **Trustee**

The Trustee receives funds from the County and makes payments to bondholders, maintains records of bond ownership and acts as fiduciary agent for the benefit of the bondholders in enforcing the terms of the bond contract.

### **Local Government Commission**

All bonds issued under the authority of the Local Government Bond Act are approved by the Local Government Commission (LGC). Approval of an application as noted in N.C.G.S. 159-51 for a bond issue to the LGC is contingent on criteria established in N.C.G.S. 159-52. Such criteria require resolution of issues such as low tax collection rate (below ninety percent (90%)), receipt of a qualified audit opinion, or violations of the Local Government Budget and Fiscal Control Act.

The County is required to send notice to the Joint Legislative Committee on Local Government at least 45 days before the LGC approves the County's application for all bonds or other debt obligations issued over \$1,000,000 for new projects, with the exception of schools, jails, courthouses, and administrative buildings.

No part of this policy may be construed or interpreted to supplant LGC authority or alleviate the County of any LGC requirements.

### **Bond Insurers / Liquidity Providers**

Credit quality and marketability of securities may be enhanced through the purchase of municipal bond insurance. The County may pay a single premium and in turn the bond insurer unconditionally guarantees the payment of principal and interest to bondholders in the event of default. Prior to purchasing insurance for an issue, the County performs a cost-effectiveness analysis with assistance from the





financial advisor and bond counsel. Due to the County's high credit quality, the costs of insurance typically outweigh the benefits the County may derive by insuring an issue, but due consideration will be given to the possibility of insurance.

## METHODS OF SALE

The County typically chooses from three different methods of selling debt securities. The methods and the description of each method are listed below:

**1. Competitive Sale** - Bonds are awarded in an auction-style of sale to an underwriter or syndicate of underwriters that provides the lowest True Interest Cost (TIC) bid. TIC is defined as the rate, which will discount the aggregate amount of debt service payable over the life of the bond issue to its present value on the date of delivery.

**2. Negotiated Sale** - The County chooses an under-writer or underwriting syndicate that is interested in reoffering a particular series of bonds to investors. The terms of the sale, including the size of the underwriter's discount, date of sale, and other factors are negotiated between the County and the Underwriter(s).

Although the method of sale is termed negotiated, individual components of the sale may be competitively bid. The components are subject to a market analysis and reviewed prior to recommendation by staff. Negotiated sales are more advantageous when there needs to be some flexibility in the sale date and market volatility is a concern. Negotiated sales are also often used when the issue is particularly large, if the sale of the debt issuance would be perceived to be more successful with pre-marketing efforts when a desired debt structure is a necessity and when market timing is a consideration.

**3. Private Placement** - Debt may be privately placed with a lending institution when private placement will enhance the attractiveness of the offering consistent with the receipt of the lowest true interest cost possible. The Local Government Commission must approve the use of all private placements, in accordance with NC Statute 159-153.

The County considers the following criteria when determining the appropriate method of sale for any debt issuance:

(1) Complexity of the Issue - Municipal securities with complex security features require greater marketing and buyer education efforts on the part of the underwriter, to improve the investors' willingness to purchase.

(2) Volatility of Bond Yields - If municipal markets are subject to abrupt changes in interest rates, there may need to be some flexibility in the timing of the sale to take advantage of positive market changes or to delay a sale in the face of negative market changes.

(3) Familiarity of Underwriters with the County's Credit quality - If underwriters are familiar with the County's credit quality, a lower True Interest Cost may be achieved. Awareness of the credit quality of the County has a direct impact on True Interest Cost an underwriter will bid on an issue. Therefore, where additional information in the form of presale marketing benefits the interest rate, a negotiated sale may be recommended.

(4) Size of the Issue - The County may choose to offer sizable issues as negotiated so that pre-marketing and buyer education efforts may be done to promote the bond sale.

(5) Costs of Issuance - Should the County decide to offer a small issue, it may choose a private placement in order to avoid the usual higher costs of issuance generally associated with competitive and negotiated sales.

### Bid Verifications

The County awards successful bidders on the basis of the lowest "True Interest Cost".

### Allowable Discounts

In most cases, the County requires bidders to purchase bonds at par. When there are no prevailing limitations, a discount is permitted when market conditions indicate a discount provides a more competitive bid and when there is flexibility to increase the par amount of the issue. If there is considerable market activity on the date of the proposed sale or other market-related factor to necessitate improving the marketability of the issue, discounts may be permitted. Bidders are notified in advance of the allowance for discounts.

### Term Bonds

Bidders may form term bonds based on the length of the maturity schedule. The resulting term bond structure must completely mirror the serial bond structure and must comply with the LGC requirements for weighted average maturity.



## Retention

Prior to pricing a bond issue, the County will select a lead underwriter and co-managing underwriters for the underwriting syndicate. Each member of the syndicate will then be assigned an "account liability" for purposes of determining the amount of the unsold bonds that will be allocated to each member of the syndicate. The total account liabilities will add up to 100 percent and the lead underwriter will typically have a larger liability than the co-managing underwriters.

## Management Fee

A management fee may be awarded to compensate the underwriters for providing assistance in structuring of the transaction, review of documents, coordination of the working group, efforts to obtain credit enhancement and other tasks. The management fee is typically allocated in the same allocation as the account liabilities.

## BOND RATING AGENCY APPLICATION

Prior to issuing new debt or to issuing refunding debt, the County will submit a rating application to at least two of the nationally recognized rating agencies, which are Moody's Investors Service, Standard & Poor's Rating Service and Fitch Ratings. The Carolina's Municipal Advisory Council will from time to time also review and update their ratings on the County.

As part of the application process, County staff may make a bond rating presentation directly to the credit analysts of the selected rating agencies. The County evaluates each time whether the circumstances favor making the presentation at the Bond Rating Agency offices, as a site visit or in some other convenient location. Included in the presentation, staff compiles information relevant to the County's current economic and financial condition as well as County initiatives. When issues occur frequently, the rating agency application and offering document will be supplemented by a minimum of a written presentation of updated information about the County since the last rating application.

Annually, the County will distribute the CAFR and the current operating and capital budgets to each of the bond rating agencies that maintain ratings on the County's outstanding debt obligations. Information about the County is also available on the County's website, [www.co.union.nc.us](http://www.co.union.nc.us).

## DISCLOSURE DOCUMENTS

The financial advisor normally assists the County in the preparation of the Official Statement in conjunction with the sale of bond. The Official Statement contains relevant economic, financial and debt information to prospective purchasers of the new issue. Underwriters are required by SEC Rule 15c2-12 to obtain a copy of the Official Statement that is "deemed final" within 7 business days following the bidding or purchasing a new issue of securities. The senior underwriter files a copy of each Official Statement with the MSRB via its Electronic Municipal Market Access database ("EMMA").

## Continuing Disclosure

The County is required under the provisions of SEC Rule 15c2-12 to provide current information annually to update certain information typically required in each Official Statement. The Official Statement provides relevant information in a series of tables. Those tables are updated and provided in the County's Comprehensive Annual Financial Report on an annual basis. This ensures the underwriters and investors have the opportunity to preview current information about the County prior to bidding or purchasing part or all of a County issuance or purchasing outstanding obligations in the secondary market. The CAFRs are filed with EMMA.

Additionally, the County will also provide timely notices of certain events to the MSRB. The County will provide notice of any of the following events with respect to bonds issued within ten business days after the occurrence of an event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) redemption of the Obligations, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the County; (13) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the



County, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

## CAPITAL PROGRAM

One of the County's goals is to maintain the excellent quality of the County's infrastructure. One of the mechanisms to achieve that objective is the maintenance of a Capital Program. The Capital Program is outlined in the County's Capital Improvement Program Management Policy and also recommends a course of action if a new debt issuance is required.

## BOND TYPE & STRUCTURE

### Fixed Interest versus Variable Interest

The County primarily issues fixed rate bonds to protect the organization against interest rate risk. The County has the option to issue variable rate bonds, and may if market conditions warrant consideration of such a structure. The County will limit the amount of variable rate bonds to no more than 10% of its total debt portfolio.

## DERIVATIVES

A derivative is a financial instrument whose value depends on other, more basic underlying variables. Derivatives may take the form of interest rate swaps; futures and options contracts; options on swaps; and other hedging mechanisms such as caps, floors, collars, and rate locks. Derivatives can provide interest rate savings, alter debt service patterns, and provide a hedge against risk associated with variable interest rate debt. However, derivatives also come with multiple risks that currently outweigh the benefits. The County believes capital objectives can be accomplished with traditional and more conservative financing methods and therefore limits the use of derivatives.

The County will also use an outside financial advisor for the preparation of derivative disclosures in our CAFR.

### General Obligation Bonds

The County issues General Obligation Bonds for general purpose capital improvements when benefits accrue to the entire community. General Obligation Bonds are also used when the expectation of the project is that it will not generate significant revenues. The County pledges its "full faith and credit" and levies property tax to repay the debt. In order to issue General Obligation Bonds, the County's voters must authorize the amount to be issued through a referendum. General Obligation Bonds are sold for a term equal to, or less than, the useful life of the project that it is funding. The County may also issue two-thirds bonds of the prior year's general obligation net reduction without voter referendum as defined in N.C. GS 159-49.

As stated in the Union County Capital Improvement Program Management Policy, it is anticipated that new general obligation debt will be funded through increased tax rate, and that voter approval of general obligation debt represents a tacit approval of the accompanying tax rate. It is also anticipated that as new general obligation debt matures; the associated tax rate will be reduced accordingly.

### Installment Financings / Certificates of Participation / Limited Obligation Bonds

The County has the opportunity to enter into installment financings under N.C. GS 160A-20, which are basically general obligation debt that do not require voter approval and the debt service obligations are subject to the annual appropriation by the Board of Commissioners. Although voter approval is not required, additional notification requirements do apply. The installment financings are secured by a lien on all or a portion of the property being financed, but otherwise are non-recourse to the County.

The County can enter into an installment financing as a private placement directly with a financial institution or, with the assistance of the Union County Public Facilities Corporation (Corporation), use Certificates of Participation (COPs) or Limited Obligation Bonds (LOBs) as a vehicle to finance the projects in the public markets.

The Corporation is a blended component unit of the County and exists to solely assist the County in financing public facilities. The Corporation is governed by a three-member board, all of whom are appointed by the County Board of Commissioners. The Board can remove any Corporation member with or without cause. The Corporation's transactions are reported within the General and Capital Projects Funds. The Corporation does not issue separate financial statements.





## Revenue Bonds

The County issues Revenue Bonds primarily for Union County's Water and Sewer Enterprise Systems. Revenue Bonds are secured by a specific source of revenue. There is no tax pledge. Revenue Bonds are issued to pay for improvements that benefit the users that repay the debt through user fees. When Revenue Bonds are issued or are outstanding, coverage requirements consistent with the bond covenant will be maintained. In addition to coverage requirements, additional system maintenance and renewal contribution levels may be required.

## Conduit Securities

The County acts as a conduit for tax-exempt financing for several entities within the County. Union County Industrial Facilities and Pollution Control Financing Authority (Authority) is a component unit of the County and exists to issue and service revenue bond debt of private business for economic development purposes. The Authority is governed by a seven-member board, all of whom are appointed by the County Board of Commissioners (Board). The Board can remove any Authority member with or without cause. The Authority has no financial transactions or account balances; therefore, it is not presented in the basic financial statements. The Authority does not issue separate financial statements.

The County may compel the entity issuing conduit financing to (1) commit to provide the municipal securities market with continuing disclosure information, (2) issue an Official Statement or other disclosure document that clearly describes the lack of direct financial support from the County or (3) obtain an opinion that states that the County will not be liable for the payment of principal and interest in the event of default by the conduit borrower. If the opinion cannot be obtained, the County may ask the conduit borrower to purchase bond insurance or provide a letter of credit in the County's name to protect taxpayers in event of default.

## Structure

Bonds are *generally* issued with an average life of 20 years or less for general obligation bonds or 30 years for revenue bonds. *Typically* interest is paid in the first fiscal year after a bond sale and principal is paid no later than the second fiscal year after the debt is issued. Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the County. The targeted maximum length to call is 10 years.

When considering structure, issues such as asset life, inter-generational equity, and affordability, among others, will be considered.

## INVESTMENT OF BOND PROCEEDS

Interest on bond proceeds is restricted such that it may only be used to fund projects that have the same purpose as the purpose for which the bonds were originally issued. Construction proceeds are typically invested in short-term securities so that they are liquid. Interest & Sinking funds may be invested longer as they have to be maintained for the life of the issue.

## POST-ISSUANCE COMPLIANCE

The County will comply with all tax rules on its tax-exempt debt, including arbitrage rebate requirements, spending of bond proceeds, use of financed facilities and record keeping as established by the Internal Revenue Service, and all disclosure requirements established by the Securities and Exchange Commission. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with the tax law and remitting rebatable earnings to the federal government in a timely manner in order to preserve the tax exempt status of the County's outstanding debt issues. The County Finance Director is responsible for such compliance efforts in consultation with the County Attorney and bond counsel.

## REFUNDING & RESTRUCTURING OPTIONS

The County may elect to refund existing debt for any of the following reasons:

- To achieve interest rate savings in a declining interest rate environment, the minimum savings achieved will be in accordance with LGC standards and guidance;
- To update covenants on outstanding debt which impair efficient operations, require burdensome coverage, or prohibit necessary or desirable activities;
- To restructure the pattern of debt service associated with outstanding bond issues; and
- To alter bond characteristics such as call provision or payment dates.

The Tax Reform Act of 1986 limits each issue to one advance refunding for all issues issued after 1986.

When interest rate savings is the principal reason for advance refunding an issue, the County will have as a goal to, but not a



requirement to, include issues that contribute three percent or more present value savings. Other factors may also affect the County's decision to advance refund an issue.

### DEBT RATIOS

The County has identified key debt ratios that investors and financial analysts use when reviewing the County's creditworthiness. The County will periodically update for investors and others the values for these ratios. These ratios include:

- Debt as a percentage of assessed value - This ratio indicates the relationship between the County's debt and the taxable value of property in the County or the County's ability to repay the debt.
- Debt per capita is the ratio that indicates the per capita debt burden and is a general indicator of the County's debt burden.
- Debt per capita as a percentage of per capita income is a measure of the capacity of the County of citizens to finance tax-supported debt. A low ratio means that taxes required to pay debt represent a smaller portion of the average citizen's income.
- Debt Service as a percent of general governmental expenditures - County's ability to repay debt without hampering other County services.
- Unreserved General Fund Balance as a percent of General Fund Operating Expenses.

### BUDGET AND PROJECTIONS

The annual operating budget will include a detailed debt analysis and discussion to include:

- Debt Service Requirements;
- Debt Ratios;
- Projection of Debt Service Payments for future years; and
- Current Credit Ratings.

In addition, during the annual projection process, all projections should include anticipated debt service for new issuances based on the adopted CIP.

Adopted June 17, 2013

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## County Financial Policy

### Overview

These “best management practices”, adopted by the Board of County Commissioners on March 15, 2004, are influenced by the North Carolina Local Government Budget and Fiscal Control Act, sound financial principles and credit guidelines advocated by the rating agencies and Local Government Commission. Operating independently of changing circumstances and conditions, these practices guide the Board in policy decision making and provide the Manager with a framework in developing budgetary and financial planning recommendations – both in the short term (the annual budget) and long-term (capital planning and financial forecasting).

The practices were modified November 1, 2004, to include parameters defining the use of derivative products to mitigate the County’s interest rate exposure, October 17, 2005, to include limitations regarding the duration in which independent accounting firms may conduct the annual audit, October 15, 2007, to include parameters regarding the imposition of user fees, September 15, 2008, to reflect refinements in the tax-supported debt capacity limits and March 30, 2010, to reflect debt composition (fixed, variable and derivatives), fiscal impact statements, tax rate increases in connection with bond referendums and the expansion of benchmarking metric definitions.

### Operating Budget

1. The County will annually adopt a balanced budget by June 30, which will provide an operational plan for the upcoming fiscal year.
2. The Manager will develop a budget which contains detailed budget recommendations for the next succeeding fiscal year (year 1) and financial targets for next budget year (year 2) following the first succeeding year.
3. The County will maintain a system of budgetary controls to ensure adherence to the budget.
4. Current operating revenues will be sufficient to support current operating expenditures. Fund balance appropriated for recurring expenditures will not exceed an amount that the County can reasonably expect to save during the fiscal year.

5. The County will maintain an appropriated contingency account. The contingency account will not exceed 5 percent of all other appropriations within the same fund.
6. Debt proceeds or non-recurring revenues will not be used to finance recurring operating and recurring capital expenditures.

### Accounting

7. The County will establish and maintain an accounting system in accordance with the North Carolina Local Budget and Fiscal Control Act.
8. An annual audit will be performed by an independent accounting firm in accordance with generally accepted accounting principles.
9. Auditing independence is enhanced by requiring that the independent accounting firm be replaced at the end of the audit contract period – a period of at least five years.
10. Financial systems will be maintained to monitor revenues and expenditures on a continual basis.

### Debt – Tax Supported

11. Tax supported debt to be issued over a 5-year capital planning period will be managed to a projected ratio of no more than 3 percent of the assessed valuation of taxable property of the County, may exceed the 3 percent ratio in any single year during the 5-year capital planning period, with the 5-year capital planning trend at or below 3 percent.
12. Payout of aggregate principal outstanding shall be no less than 50% repaid within 10 years.
13. Capital projects will be financed for a period not to exceed the expected useful life of the project.
14. The County will maintain its financial condition in order to maintain a minimum bond rating in the “AA” category for outstanding G.O. debt and “A” category for outstanding installment financing agreements from at least one nationally recognized municipal debt rating service.





15. Bond referendum and voted and non-voted debt issuance shall be considered only after inclusion of the financed projects in the County's Capital Improvement Plan and Financial Feasibility Plan.
16. Bond referendum initiatives shall be placed on the ballot in connection with countywide or municipal elections.
17. Tax supported bond referendum initiatives shall be placed on the election ballot only after the development of a comprehensive debt service management plan that provides for the:
  - establishment of cash flow projections which provide an indication of fund requirements and the timing of bond sales
  - development of principal and interest repayment schedules associated with bond sales
  - development of annual operating costs associated with capital projects
  - allocation of General Fund unrestricted revenues to support the repayment of issued bonds.
18. Projected bond cash flow deficits (the difference between projected bond repayment schedules and available revenues) shall be funded through increased taxes or reduction in General Fund services and programs.
19. A debt service management plan and fiscal impact statement shall be developed in connection with each bond referendum initiative and shall be disseminated to the general public.
20. Bond referendum initiatives that pass which contain debt service management plans providing for increased taxes shall be imposed in the first fiscal year immediately following the passage of the referendum. Fiscal impact statements that contain property tax rate increases shall be limited to \$0.04 per \$100 in any one fiscal year. By way of illustration, a fiscal impact statement contains a \$0.07 per \$100 property tax rate increase. A property tax rate increase of \$0.04 shall be imposed in the first fiscal year immediately following the passage of the referendum with the balance of \$0.03 occurring the second year following the referendum passage.
- 20a. A comprehensive debt service management plan, repayment plan and fiscal impact statement shall be developed prior to the issuance of non-voted debt.

21. General Fund resources (taxes) required to service debt service expenditures shall be calculated and communicated to the general public with the annual tax bill or annual report.

#### Debt - Utility Revenue Supported

22. Utility debt service coverage ratios shall be maintained at a level of 1.25 to 1.5 times coverage or greater (as measured by net revenues, excluding capital contributions, available for debt service divided by total debt service requirements).
23. Utility system debt to equity shall not exceed 70% - 75% (as measured by total long-term debt divided by total net assets).
- 23a. Combined water and wastewater rates shall not exceed 1.5% of median household income.
- 23b. Payout of aggregate principal outstanding shall be no less than 40% repaid within 10 years and 80% repaid within 20 years.
- 23c. Capital contributions shall be used to fund non-recurring asset additions contained in the capital improvement plan thereby reducing the requirement to issue utility system debt.
24. Utility capital projects will be financed for a period not to exceed the expected useful life of the project.
25. Utility capital projects shall be consistent and conform with other master plans such as Land Use, Economic Development and Transportation.
26. Utility capital projects shall satisfy area wide benefits relating to production, treatment, transmission and distribution, as well as being economically viable.
27. The County will maintain its enterprise financial condition in order to maintain a minimum bond rating in the "A" category for outstanding Revenue debt from at least one nationally recognized municipal debt rating service.
28. Utility debt issuance shall be considered only after inclusion of the financed projects in the County's Capital Improvement Plan and Financial Feasibility Plan.



29. Debt issuance shall be considered only after the:
- establishment of cash flow projections which provide an indication of fund requirements and the timing of bond sales;
  - development of principal and interest repayment schedules associated with bond sales;
  - development of annual operating costs associated with capital projects;
  - development of a financial feasibility plan to support the repayment of issued bonds.

#### Investments

30. The County will monitor the receipt and disbursement of all funds to ensure the maximum investment of idle cash.
31. The County will invest only in instruments which comply with the North Carolina Budget and Fiscal Control Act.

#### Capital Planning

32. The County will develop, and annually update, a comprehensive 5-year capital improvement plan for the General Fund (in collaboration with and to include the Union County Public Schools) which identifies and balances both sources (where the money comes from) and uses (where the money goes).
33. The County will develop, and update semi-annually, a comprehensive 5-year capital improvement plan for the Enterprise Funds which identifies and balances both sources (where the money comes from) and uses (where the money goes).

#### Fund Balance Targets

34. The maintenance of adequate fund balance is necessary to provide working capital, funds for unanticipated expenditures, and funds for capital expenditures in advance of their reimbursement from debt proceeds and tax rate stabilization.
35. General Fund target unreserved fund balances are estimated at 16% as measured by unrestricted cash and investments minus liabilities divided by expenditures plus recurring interfund transfers.

36. Water and Sewer Operating Fund target fund balances are estimated at 365 days cash on hand (as measured by unrestricted cash and investments minus non-GAAP liabilities divided by operating expenses to include depreciation).

#### Excess Fund Balance

37. General and Enterprise Fund balances in excess and Enterprise Fund balances in excess of target levels will be transferred to capital reserve funds to provide equity resources to fund the County's capital improvement plan or will be used to redeem outstanding debt.

#### Swap Agreements

38. Authorized to achieve a reduction and/or limit the financial exposure of debt service payments.
39. Must receive an opinion of bond counsel law firm that agreement is legal and binding.
40. Must receive Local Government Commission approval.
41. Must retain independent certification from financial advisor that swap agreement provides fair market value and that the associated risks are prudent risk appropriate for the County.
42. Counterparty must have two long-term, unsecured credit ratings in at least double A category.
43. Swap agreements may be procured either through negotiation or competitive. If negotiated, County must receive fair market opinion from financial advisor.
- 43a. Swap agreements which synthetically fix variable rate debt, combined with unhedged variable rate debt, will not exceed 20% to 30% of all long-term debt outstanding; this metric will be applied separately to tax supported and enterprise debt.

#### User Fees

44. County encourages the establishment of fees at a level that maximizes revenues.



45. Regulatory fees shall be set at a level that strives to recover full costs (direct and indirect costs, such as depreciation or usage costs associated with capital assets) of providing the service, unless statutory restrictions limit the fee amount.
46. Non-regulatory fees are charged for a wide variety of services with the primary purpose for non-regulatory fees being to: 1) influence the use of the service and 2) increase equity.
47. Non-regulatory goods or services provided to specific, identifiable recipients shall be self-sustaining and therefore, shall be financed through user fees.
48. Non-regulatory user fees shall be set at a level that is competitive in the marketplace and strives to recover full costs (direct and indirect costs, such as depreciation or usage costs associated with capital assets) except when:
  - free or subsidized service provides a significant public benefit;
  - the County has determined that it should influence personal choice to achieve community-wide public benefits;
  - full cost recovery would result in reduced use of the service or limit access to intended users thereby not achieving community-wide public benefits;
  - the cost of collecting the user fees would be excessively high;
  - ensuring the users pay the fees would require extreme measures.

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## Not Supplanting Policy

### Objective

Supplanting, for the purposes of this policy, refers to the substituting of local funds for reductions in State, federal, or private funding.

The residents of Union County receive important, beneficial services from a wide variety of State, federal, and private agencies, as well as County programs which rely on funding from these agencies. These agencies are critical partners with the County and Union County Public Schools (UCPS) in the provision of programs to the community. When these agencies terminate programming, reduce services, or curtail funding, it cannot be assumed that the County will maintain these programs. The County's ability to assume the financial responsibility for these services without significantly impacting other service areas which are solely the responsibility of the County or without having to increase tax rates is limited.

The purpose of this policy is to formalize a Board of County Commissioners policy of not automatically supplanting funds from State, federal, or private agencies with local funds when those agencies reduce or eliminate funding to County or UCPS programs.

### Policy

1. It is the policy of the Board of County Commissioners to prevent, to the extent possible, the shifting of financial responsibility for State, federal, or privately funded programs to the residents of Union County by not supplanting those funds with local funds when those agencies reduce funding to the various community programs that rely on that funding.
2. The County Manager will provide information, on a periodic basis, to the Board of County Commissioners concerning any reductions in funding from State, federal, or private sources that are expected to adversely affect services to the residents of Union County. When services are severely affected by such reductions, the County Manager will determine what actions, if any, may be necessary to mitigate the impact on local services.

3. The Board of County Commissioners may from time to time express concerns, via resolution, to the County's legislative delegation, concerning possible impacts of reduced funding or increased/unfunded mandates.

As Adopted By the Board of County Commissioners on February 4, 2013.

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## School Funding Formula Policy (suspended)

### Purpose Statements

The purpose of the funding formula policy is to establish a procedure for allocating funding to the Union County Public Schools (UCPS) from Union County (the County). This policy reflects the collaborative effort and shared responsibility to serve the residents of Union County. This policy also reflects the shared, continued commitment to education.

This policy is established to provide transparent, fair, sustainable, and predictable means of sharing local ad valorem revenue and to establish a balance between UCPS needs and the wide range of other services provided to the residents of the County. This policy will provide both UCPS and the County the necessary revenue sustainability and predictability necessary for long-term planning.

Revenues allocated under this policy, by the County to UCPS, represent a portion of the County's direct and indirect contributions to UCPS.

The policy is established to provide an objective framework to review, amend, and modify various components of the funding relationship between UCPS and the County.

### Formula

The UCPS will receive an allocation of 35.36 cents annually of the current Ad Valorem Tax revenue for current operating expense. For planning purposes the contribution will be estimated at 98 percent of the estimated valuation. At the end of each fiscal year, the contribution will be "trued up" to reflect actual collections. Actual collections in excess of the estimate will be contributed to UCPS and if actual collections fall below estimates, the difference will be returned to the County as prescribed by G.S. 159-13(b)(9).

In addition to the current Ad Valorem Tax revenue sharing through the formula, the County will continue to contribute 100 percent of the "late list penalties".

The County, at its sole expense, will provide School Resource Officers, in such number as is agreed upon annually.

Funding for UCPS Capital Improvements will be in addition to the funding formula and will be in accordance with the Union County Capital Improvement Program Management Policy. For the purposes of this policy, Capital Improvements include capitalizable costs in Categories I, II, and III projects as defined by the Uniform Budget Format.

### Procedures

- The County will provide, on or before December 31, annually, any amendments to County fiscal policies that will impact the development of the UCPS Capital Improvement Project request or other pertinent items.
- The County will provide, on or before January 31, annually, a projected allocation to UCPS for budgetary planning purposes. The penny value and schools allocated rate provides an initial estimate of the total anticipated revenue for the schools current operating expense.
- The County encourages UCPS in conjunction with the County's Five-Year Projections, on or before January 31, annually, to provide to the County, a briefing of previous year financial results and current year financial projections. The County will provide to UCPS a briefing of same. The briefing may occur during a joint meeting.
- The County encourages UCPS to provide to County Management, on or before March 1, annually the UCPS Six-Year Capital Request, pursuant to County financial policy as outlined in the Union County Capital Improvement Program Management Policy. The UCPS Six-Year Capital Request is limited to capitalizable costs in Categories I, II, and III projects as defined by the Uniform Budget Format and pursuant to G.S. 115C-429(c).
- The County encourages UCPS to provide to the County Management, on or before April 15, annually the UCPS operating budget, by purpose code, pursuant to G.S. 115C-429(c). The operating budget, by purpose code and by function, will be in such detail as agreed upon by UCPS and the County and pursuant to G.S. 115-429(c).



- The funding formula will be reviewed no more frequently than every two years and no less frequently than every five years, each measured from the time of the last review.
- The funding formula will be reviewed during a revaluation year to establish the allocation based on the new valuation.
- It is anticipated that UCPS and the Union County Board of County Commissioners agree that the funding formula provides sufficient funding to support a system of free public schools. In the event either group feels this is not the case, there will be a joint meetings of the bodies to attempt to resolve the outstanding concerns before entering the dispute resolution procedure as outlined in G.S. 115C-431.
- UCPS may, in the event of emergency, request by resolution a one-time additional contribution, pursuant to G.S. 159-15.

Adopted March 18, 2013 and SUSPENDED on April 21, 2014.

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