

NC's Budgeting Practices, Process and Policies (aka Budgeting 101)

February 11, 2015



FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Presentation Outline

- **NC Budget Process**
- Budget Types
- Fund Types
- Budget Policy



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2

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NC Budget Process

- Preparation
- Legislative Consideration & Enactment
- Execution, Administration & Management

Base Budget (formerly known as Continuation Budget)

- The part of the Governor's Recommended Budget that provides the baseline for the next biennium. Starting point is authorized budget plus allowable adjustments:
- Limited to the following:
 - Annualizations
 - Adjustments to non-recurring items
 - Adjustments to federal payroll taxes
 - Increases in lease agreements
 - Adjustments for receipts projections
 - Reconciliation of transfers

Preparation Schedule

- OSBM is responsible for preparing the Governor's Budget that is recommended to the General Assembly.
- For the long session, budget preparation starts appx one year in advance.
 - August 2014 - OSBM issues budget instructions
 - Oct 2014 - Agencies prepare required worksheets, supporting documentation & determine departmental priorities
 - Nov 2014 - Jan 2015 – OSBM negotiate with agencies, finalize recommendations and meet with Governor
 - Feb/March 2015 – Governor's Budget finalized & prepared for printing
 - January 2015 – GA reconvenes to pass FYs 2015-16 and 2016-17 budgets
 - Feb/May 2015 – Appropriations committee briefings, deliberations and recommendations
 - June 2015 - GA enacts a biennial budget

Expansion Budget

- Outlines costs required to:
 - Expand existing programs and start-up new programs
 - Provide salary and benefits increases for state employees, local school employees and community college staff
 - Continue programs previously operated with non-state funds
 - Provide for any departmental need like new or replacement equipment and vehicle purchases
- Governor's budget instructions limited expansion to 2% provided the net change to the budget was a 2% savings

Capital Budget

- Outlines costs required to:
 - Construct new facilities
 - Repair and renovate existing facilities
 - Purchase land

Base Budget

- What it looks like:
 - Line-item detail
 - Actual expenditures/receipts for FY 2013-14
 - Certified budget for FY 2014-15
 - Authorized budget for FY 2014-15
 - Allowable increase/decreases
 - Base budget for FYs 2015-16 & 2016-17

Base Budget

BI233		BUDGET PREPARATION SYSTEM BUDGET PREPARATION WORKSHEET I (DETAIL REQUEST) FUND DETAIL					PAGE 16/ 17 18:47:05 02/06/13	
13700 Agriculture and Consumer Services - General Fund							ATTACHMENT 4	
1020 Markets								
CODE (1)	DESCRIPTION (2)	2011-2012 ACTUAL (3)	2012-2013 CERTIFIED (4)	2012-2013 AUTHORIZED (5)	2013-2014 INCR/DECR (6)	2013-2014 TOTAL (7)	2014-2015 INCR/DECR (8)	2014-2015 TOTAL (9)
REQUIREMENTS								
SS 1211	SPA-REG SALARIES-APPR	3,522,029	3,486,481	3,481,296	0	3,481,296	0	3,481,296
SS 1212	SPA-REG SALARIES-RECPT	551,740	585,011	588,844	0	588,844	0	588,844
SS 1221	SPA TIME-LIMITED SAL-APP	0	231,720	231,720	-231,720	0	-231,720	0
SS 1311	REG (N S) TEMP WAGES-APPR	64,390	136,070	90,349	-25,186	65,163	-25,186	65,163
SS 1312	REG (N S) TEMP WAGES-RECPT	75,203	29,846	75,567	0	75,567	0	75,567
SS 1321	CONTR EMPL PER IRS-APPRO	37,235	34,218	34,218	0	34,218	0	34,218
SS 1411	OT PAY - APPROPRIATED	5,822	25,648	25,648	-3,000	22,648	-3,000	22,648
SS 1412	OT PAY - RECEIPTS	1,185	2,560	2,560	0	2,560	0	2,560
SS 1421	HOLIDAY PAY - APPRO	5,230	5,057	5,057	-1,577	3,480	-1,577	3,480
SS 1422	HOLIDAY PAY - RECEIPTS	3,807	1,825	1,825	0	1,825	0	1,825
SS 1431	SHIFT PREM PAY - APPRO	7,659	1,262	1,262	0	1,262	0	1,262
SS 1432	SHIFT PREM PAY - RECEIPT	13,698	7,300	7,300	0	7,300	0	7,300
SS 1461	EPASPA-LONGVTY PAY-APPR	68,527	80,484	80,484	-890	79,594	-890	79,594
SS 1462	EPASPA-LONGVTY PAY-REC	10,756	1,342	1,342	0	1,342	0	1,342
SS 1511	SOCIAL SEC CONTRIB-APPRO	279,668	501,806	288,979	-20,072	278,907	-20,072	278,907
SS 1512	SOCIAL SEC CONTRIB-RECPT	46,402	48,034	51,830	0	51,830	0	51,830
SS 1521	REG RETIRE CONTRIB-APPRO	475,909	529,271	528,347	-26,498	501,849	-26,498	501,849
SS 1522	REG RETIRE CONTRIB-RECPT	79,144	89,394	89,795	0	89,795	0	89,795
SS 1561	MED INS CONTRIB-APPRO	359,972	410,323	408,092	-34,766	373,326	-34,766	373,326
SS 1562	MED INS CONTRIB-RECPTS	75,325	88,370	90,341	0	90,341	0	90,341
SS 1576	FLEX SPENDING TRANSACTION	5,768	0	0	0	0	0	0
SS 1625	ST DISABILITY PNT	0	5,687	5,687	0	5,687	0	5,687
SS 1627	ST DISABILITY PNT-APP	16,418	0	0	0	0	0	0
SS 1631	WORKER COMP-MED PAYMENTS	70,209	13,784	13,784	0	13,784	0	13,784
SS 1632	WORKER COMP-TEMP DIS PAYM	26,499	4,544	4,544	0	4,544	0	4,544
SS 1664	NONTAX ENGL CELL PHONE	427	0	0	0	0	0	0
TOTAL PERSONAL SERVICES		5,790,022	6,113,507	6,112,241	-343,709	5,768,532	-343,709	5,768,532
SS 2110	LEGAL SERVICES	226	0	0	0	0	0	0
SS 2133	EMPLOYER/EMPLOYMENT PHYSIC	329	150	150	-50	100	-50	100
SS 2170	ADMIN SERVICES	0	540	540	0	540	0	540
SS 2181	WORKSHOP EXP-FOOD SERV	405	0	0	0	0	0	0
SS 2182	LAUNDRY SERVICES	75	2,802	2,802	-2,000	802	-2,000	802
SS 2184	JANITORIAL SER AGREEMENT	11,629	19,212	19,212	0	19,212	0	19,212
SS 2185	WASTE REM/RECY SER AGREE	42,851	67,468	67,468	-7,256	60,212	-7,256	60,212
SS 2186	SECURITY SERVICES	541	414	414	0	414	0	414

Governor's Recommended Budget

- Combination of base, expansion & reductions
 - Base typically represents 96-98% of total recommended budget
 - \$20.3 billion in FY 2013-14 and \$20.4 billion in FY 2014-15
 - Amount of expansion depends on size of base budget and revenue projections
 - Amount of reductions depends on size of base budget and revenue projections
- Presentation of Recommended Budget
 - Typically a single volume with reference to the base budget

General Assembly Deliberations

- Governor presents Recommended Budget
- Joint Committees review agency programs and budgets; work on recommendations
- House develops budget
- Senate fails to concur, develops budget
- Conference committee develops budget
- General Assembly enacts a biennial budget

Presentation Outline

- NC Budget Process
- **Budget Types**
- Fund Types
- Budget Policy



Budget Terms: Budget Types

- **Certified Budget**

- **Statutory Definition:** The budget as enacted by the GA plus

1. distributions to State agencies from statewide reserves appropriated by the General Assembly,
2. distributions of reserves appropriated to a specific agency by the General Assembly, and
3. organizational or budget changes mandated by the General Assembly.

- **What gets added/ How is it changed:**

- Salary increases, retirement adjustments
 - Management flexibility reserves
 - Reorganizations

Budget Terms: Budget Types

- **Authorized Budget**

- **Statutory Definition:** The certified budget with changes authorized by the Director of the Budget through authority granted in G.S. 143C-6-4 or other statutes.

- **What gets added/ How is it changed:**

- New grants, changes to existing grants, or federal “carryforward”
 - Moving money between funds/programs
 - Budgeting of an increase in departmental receipts

Budget Terms: Budget Types

- **Certified budget**
 - The 2012 budget appropriates \$10,000 for Agency Y to buy new 10 computers.
 - *Certified budget = \$10,000*
- **Authorized budget:**
 - Agency Y determines they need 11 computers. They reallocate money from the furniture line-item to pay for it.
 - *Authorized Budget = \$11,000*
- **Actual expenditures:**
 - Agency Y got a great deal on computers. The final cost for Agency Y's 11 computers is \$5,500.
 - *Actual Expenditures = \$5,500.*

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Fund Types

- **General Fund**
- **Special Revenue Funds**
- **Enterprise Funds**
- Internal Service Funds
- **Trust Funds**
- Capital Funds
- Others – institutional funds, agency funds

General Fund

- The primary operating fund for most governmental entities
- Used to account for all financial transactions, except those that must be accounted for in another type fund
- Money reverts at end of fiscal year

Special Revenue Funds

- A fund to which revenues are deposited that are designated for a specific purpose and remain in the account until expended for that purpose
- Funds do not revert to the General Fund
- Can build cash balances over time
- Cash balances are non-recurring in nature

Special Revenue Funds

Legislative Decisions

- Created by statute:
 - Commercial Leaking Underground Storage Tank Clean-up

Executive Decisions

- Created by court settlement (de facto):
 - MGP Agreement Funds
- Created for administrative purposes:
 - Ag Cost Share Program
- Created for accounting or reporting purposes:
 - Weatherization

Other Fund Types

- Enterprise Funds
 - Used when a state agency provides goods or services to the general public for a fee
 - Examples: State Fair and Raleigh Farmers Market
- Internal Service Funds
 - Used when a state agency provides goods or services to other state agencies
 - Examples: Motor Fleet & Information Technology Services

Other Fund Types

- Trust Funds
 - Used to account for assets held by a state agency as trustee or agency for individuals, private organizations or other governmental units
 - Example: Employee retirement
 - Not the Clean Water Management Trust Fund

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NC's Budget Policy

- State Constitution
- State Budget Act (Chapter 143C)
- Appropriations Act
- Other Chapters of the General Statute
- State Budget Manual
- Budget Instructions

NC's Budget Policy

State Constitution requires:

- **Preparation:** Governor to prepare and recommend to the General Assembly a comprehensive budget of anticipated revenue and proposed expenditures (Art.III, Sec 5(3))
- **Balanced Budget:** “total expenditures of the State for the fiscal period covered by the budget shall not exceed the total receipts during that fiscal period...” (Art.III, Sec 5(3))
- **Administration:** “The budget as enacted by the General Assembly shall be administered by the Governor” (Sec 5(3))
- **State Treasury:** “No money shall be drawn from the State treasury but in consequence of appropriations made by law” (Art. V, Sec.7)

NC's Budget Policy

• State Budget Act (Chapter 143C)

- Sets out the statutory procedures and requirements for preparing, reviewing, adopting and managing the State's Budget in accordance with the Constitution
- **Defines Appropriation:** “An enactment by the General Assembly authorizing the withdrawal of money from the State treasury. *An enactment by the General Assembly that authorizes, specifies, or otherwise provides that funds may be used for a particular purpose is not an appropriation.*”
- **Defines State Funds:** Any moneys including federal funds deposited in the State treasury except moneys deposited in a trust fund or agency fund as described in G.S. 143C-1-3.

Budget Policy – Appropriations Bills

Special provisions provide guidance on how to spend money and set budget policy:

- Example: Expanded the purposes for which the Mercury Pollution Prevention Fund could be used to allow for the implementation of recycling programs for products containing mercury, including recycling programs for light bulbs and thermostats.
- Example: Directed the Division of Forest Resources to perform aircraft maintenance using its mechanics for all aircraft of the Division of Marine Fisheries.
- Example: Directed that, beginning fiscal year 2012-2013, no more than \$120,000 in State funds shall be used for the annual salary of any one employee of the non-profits funded through NER.

Budget Policy – Other Statutes

- **Sets Fees:**
 - **G.S. 130A-291.1(e):** “A septage management firm that operates one pumper truck shall pay an annual fee of five hundred fifty dollars (\$550.00) to the Department...”
- **Creates Special Revenue Funds:**
 - **G.S.103A-291.1(e3) :** “The Septage Management Account is established as a nonreverting account within the Department. Fees collected under this section shall be placed in the Septage Management Account and shall be applied only to the costs of the septage management program.”
- **Spends Reversions:**
 - **G.S. 116-30.3:** “Of the General Fund current operations appropriations credit balance remaining at the end of each fiscal year in each budget code of a special responsibility constituent institution...the amount carried forward under this section shall not exceed two and one-half percent (2 1/2%) of the General Fund appropriation.”

Budget Policy – State Budget Manual

- Prepared by the Office of State Budget and Management (OSBM)
- Used by state agencies in the administration of their budgets
- Provide more detailed budget related guidance to agencies
 - Examples: Use of lapsed salaries, travel reimbursement policies, etc.

Budget Policy –Budget Instructions

- Prepared by the Office of State Budget and Management (OSBM)
- Used by state agencies to prepare their budgets

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