19

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Operations Budgeting

The operating budget is the most important document that a county will produce.[1] It is "the only document that summarizes the entire array of public programs to be undertaken by county governments."[2] The budget drives the other financial management systems and becomes the most important tool by which a local government's goals are accomplished and objectives are met. Counties in Georgia are required to prepare an operating budget each year. A capital budget, which covers proposed expenditures for items with a life of more than one year, is not an annual requirement. (Capital budgets are discussed in Chapter 20.) However, for each capital projects fund in the capital budget, counties are required to adopt and operate under a project-length balanced budget.

The annual operating budget (in this chapter, referred to as the budget) is not only a plan that guides the operations of county government and its divisions; it is also a political document. In a democratic society, government officials have an obligation to efficiently execute the will of the people. Citizens likewise have a right to oversee and check the policy and administrative decisions of their representatives and appointed public servants. The budget serves both of these democratic aims. It is an important management tool, providing information essential to improving the efficiency of program operations. And, as an accountability document, the budget provides information that citizens can use in assessing county activities and operations.

Described as a "wish book with price tags attached," the budget reflects the commitment of resources to the implementation of proposed policies and programs. The budget, then, is the product of a complex process of resolving conflicting needs and wants. It also is an essential component of a responsive and responsible county government.

The claim that "each local government's budgeting process is unique . . . the product of geographical, historical, economic, political, and social factors peculiar to that jurisdiction" certainly applies to counties in Georgia.[3] No one would argue, for example, that Fulton, Gwinnett, Clarke, Taliaferro, and Quitman Counties confront the same issues or that their budgets or budget processes are or should be the same. However, county budget processes in Georgia do reflect important features and values associated with budget decision making generally. This chapter reviews state legal requirements relating to county budgeting and financial disclosure, describes the process of county budgeting, explores the multiple purposes served as the budget is formed and administered, and discusses selected policies intended to guide the operating budget process.[4]

STATE LEGAL REQUIREMENTS

Counties are creations of the state, and the state of Georgia has a vested interest in the financial well-being of all 159 counties.[5] Prior to 1980, there were no general state statutory or constitutional requirements related to budget development or the disclosure of financial information. In that year, the General Assembly enacted the local government Financial Management Standards Act (FMSA) requiring all counties to adopt an annual balanced budget and to provide for regular audits.[6] Subsequently, the General Assembly enacted two important local government budgeting laws. In 1997, it directed the state Department of Community Affairs to create a uniform chart of accounts for the state's local governments (see Chapter 16 for a more detailed discussion of the uniform chart of accounts),[7] and in 1998, it amended the 1980 budget law expanding and clarifying state requirements related to local government budgeting.[8]

The budget law, as amended, imposes the following requirements on counties:

- Establish an official fiscal year for the county's operations.[9] There is no prescribed fiscal year, but most begin on either January 1 or July 1.
- Adopt a balanced budget and provide for a regular audit.
- Prepare a proposed budget for submission to the county commission.[10] The budget proposal must include anticipated revenues by source and expected expenditures by function.
- Adopt project budgets, rather than annual budgets, for major capital projects. An annual budget corresponds with a county's fiscal year, but a project budget is adopted for the project pe-

riod, without regard to the fiscal year. Normally, the issuance of general obligation bonds or the special purpose local option sales tax (SPLOST) has funded major capital projects. Prior to this change in the law, counties were required by state law to adopt annual budgets for each project. For example, if a county were to build a new jail over a three-year period, it would need to estimate the costs that would occur in each of the three years. If the project were not completed on time, many of the same costs would be budgeted in more than one different fiscal year. Under the law, however, counties can budget the total cost of the project in the year in which the project began, with no additional budget action required in the later years of the project, unless the total budget is increased.

- Limit the requirements for adopting budgets. Counties now only need to adopt annual budgets for the general fund, each special revenue fund, and each debt service fund. Counties are not required to adopt budgets for other funds such as water and sewer. However, a county may—and is encouraged to—adopt annual budgets for all of its other funds.
- Notify the public that the budget proposal is available for public review.[11]
- Conduct a public hearing at least one week prior to the adoption of the budget resolution or ordinance, notice of which must be published at least seven days before the hearing.[12]
- Adopt a budget resolution or ordinance, which can contain dollar amounts different from the amounts contained in the proposed budget.[13] Notice of the meeting at which the budget ordinance or resolution is to be adopted must be advertised at least seven days before the meeting.[14]
- Adopt budget amendments by ordinance or resolution.[15] Formerly, it was not always clear at a commission meeting when a commission was actually amending the budget. For example, when a county commissioner moved to buy a new fire truck and the commission voted "yes," had the budget been amended? Under the new law, county commissioners are required to amend the budget through a more formal process (that is, by approving an ordinance or resolution).
- Provide for an audit[16] of the financial affairs and transactions of all funds and activities in accordance with generally accepted governmental auditing standards (GAAP).[17] The audit report must contain financial statements prepared in conformity with

GAAP and the opinion of the auditor regarding the statements and must disclose any apparent material violation of state or local law. Counties with populations of more than 1,500 persons or expenditures of $300,000 or more must be audited each fiscal year, while all other counties must be audited at least once every two fiscal years.[18]

- Submit a copy of the audit report to the Georgia state auditor within 180 days after the close of the fiscal year, or the close of each second fiscal year in the case of counties not required to be audited annually.[19]
- Submit a copy of the final budget and audit to the Carl Vinson Institute of Government annually to be posted on its Web site.[20]

The budget law also clarifies the legal level of budgetary control. The level of control is the level of budget detail that the county commission must adopt in its budgets; overspending at this level would result in a violation of the law.[21] The law establishes the legal level of control at the departmental level within each fund, unless a more detailed level of control is established by resolution or ordinance of the commissioners.[22]

When the legal level of control is the department, transfers of appropriations within any fund below the departmental level require only the approval of the budget officer.[23] However, the law does not define the term department. Therefore, the county commission must make departmental allocations clear within the budget (see Table 19-1).

If the county commissioners keep the department as the legal level of control, only the county commission can transfer budget amounts between departments within each fund. For example, in Table 19-1, if the county commission had a need to spend more than the $2 million in the Public Works Department, the commission would have to amend the budget. If the county spends more on any department than the budget allows without first amending the budget, it is breaking the law.

STAGES OF THE COUNTY BUDGETARY PROCESS

The county budgetary process is divided into four stages: preparation, adoption, execution, and auditing. Although the way the budget document develops through these four stages is simple, the total process is complex.[24] It involves many different actors such as the chief administrative officer, the commissioners, the clerk to the commissioners, the department heads, the constitutional officers (i.e., sheriff, superior court clerk, tax commissioner, and probate judge), other county and state elected officers who receive funding through the county (i.e., magistrate judge, state court judge, solicitor general, district attorney, and superior court judge), and others, who change roles from one stage to the next.

"The budget" is really two budgets. The first budget, or legislative budget, is a request for funds. The legislative budget is the focus of concern during the first two stages of the process (i.e., preparation and adoption). A budget request is prepared by the constitutional officers, other county and state elected officers who receive funding through the county, department heads, and other staff for action by the board. Once the response to the funding request is completed by the adoption of an appropriation resolution or ordinance, the budget becomes a plan that each county department, constitutional officer, and other county and state elected officers receiving funding through the county are authorized to undertake. This second budget, or management budget, is critical to the final two stages in the process (i.e., execution and auditing). This is the budget that the administrative officers must execute, making sure that spending does not exceed limits. It also serves the audit function, providing a foundation for the county's financial accounting structure.[25]

Preparation

Budget preparation begins with the creation of a budget request. In many counties, the clerk of the commission (that is, the clerk of the board of county commissioners or the clerk of the sole commissioner) is designated as the budget officer and prepares the budget under the supervision of the chairman of the board of commissioners or a designated budget committee. In such cases, the commission and/or budget committee retains ultimate responsibility, and the clerk of the commission assumes the day-to-day responsibilities associated with budget preparation. In

Table 19-1. *Sample General Fund Allocations, by Department*

Department	Amount
General government	$1 million
Sheriff	$3 million
Tax commissioner	$1 million
Finance	$1 million
Public works	$2 million
Parks and recreation	$1 million
Total budget	$9 million

those counties in which there is a county administrator or manager, that person is usually designated as ultimately responsible for budget preparation and submission. These counties often also have either a director of finance or budget director who assumes the day-to-day responsibility for budget preparation. The budget officer (whether the clerk, administrator, or manager) is also responsible for coordinating the work of a centralized budget and finance staff as well as the budget activities of the constitutional officers, other county and state elected officers who receive funding through the county, department heads, and their staffs.

To ensure that the budget is ready and in place when the fiscal year begins, it is necessary to establish a plan for developing the budget early in the process. First, the budget officer distributes a budget calendar to all participants. The budget calendar is a schedule of the various actions or steps that are necessary to prepare, review, and finally adopt a budget. It gives a specific timetable and assigns responsibility for each action. Table 19-2 presents a suggested budget calendar based on a January 1 fiscal year. Preparation of the budget request is time consuming and should begin about four to six months before the start of the county's fiscal year.

Once the budget participants know who is responsible for what and by when, the next step is to estimate the amount of revenue that will be available. Since counties cannot spend more dollars than they collect, the designated budget officer carefully estimates the amount of revenue the county can expect from each revenue source. Revenue collections in previous years serve as a basis for the forecast. For the purpose of estimating the property tax, the previous year's millage rate is applied, but once the budget is adopted a new millage rate will be set in order to generate revenues to cover expenditures.

Department heads play an important role in budget preparation. Working with members of their staff, they prepare and submit budget requests to the person responsible for day-to-day budget activities. The constitutional officers, other county and state elected officers who receive funding through the county, and department heads should prepare realistic requests that reflect constraints confronting the county in a particular fiscal year. They must provide accurate numbers to support their request and articulate and "sell" their respective programs.[26] In order to assist the constitutional officers, other county and state elected officers who receive funding through the county, and department heads, the budget officer issues guidelines indicating the limits within which budget requests should be prepared. The guidelines contain information such as the following:[27]

Table 19-2. *Suggested Budget Calendar (January 1 Fiscal Year)*

Due Date	Budget Steps	Day-to-Day Responsibility
September 1	Budget calendar is prepared.	Budget officer*
September 1	Budget preparation forms are printed and ready for distribution.	Budget officer
September 15	Budget information for current year and for prior years is entered on forms for each department. Budget request forms and instructions are then distributed to departments.	Budget officer
October 1	Revenue estimates for the next budget year are completed.	Budget officer
October 15	Expenditure estimates are made and are returned to the budget officer.	Department heads
November 15	a. Budget requests are summarized.	a. Budget officer
	b. Requests are analyzed and adjusted.	b. Budget officer
	c. Proposed expenditure plan is assembled.	c. Budget officer
	d. Proposed revenue program is prepared.	d. Budget officer
November 22	Proposed budget for next budget year is submitted to the board of commissioners.	Budget officer
November 30	Proposed budget is reviewed.	Governing authority
December 1	Public hearing is advertised.	Budget officer
December 8	Public hearing on budget is held.	Governing authority
December 15	Board's review of proposed budget is completed. Revisions are made to the budget.	Governing authority
December 24	Budget adoption meeting is advertised.	Budget officer
December 31	The budget is adopted. The appropriation ordinance and the revenue ordinance are adopted.	Governing authority
January 1	Monthly or quarterly allotment schedules for departments are prepared. Budget accounts are created. The adopted budget is entered into these accounts.	Budget officer

* The budget officer can be any one of the following: county administrator, manager, clerk of the commission, finance officer, budget officer, or a commissioner.

- Revenue estimates
- Planned changes in the level of service delivery
- A review of current year operations
- An analysis of general economic conditions expected for the coming year
- Assumptions to be made about wage rates and other prices
- Conditions under which additional personnel can be requested and the number of personnel who may be promoted
- Planned productivity gains
- Instructions for completing the forms

In addition, the budget officer prepares and distributes budget request forms to all county departments, constitutional officers, and other elected state and county officers who receive funding through the county. These forms ensure consistency and uniformity in the information submitted in departmental requests, thereby facilitating the review process by the person or committee responsible for budget preparation. Two commonly used forms are the budget expenditure request form and the personal services cost explanation form:[28]

1. *Budget expenditure request form.* This form shows the details of a department's budget request. It usually lists expenditures by line item and activity within a department. It includes actual expenditures from the preceding two or three years, the current year's budgeted expenditures, the budget request for the next fiscal year, and information regarding the extent to which the request is an increase or decrease in the current budget.
2. *Personal services cost explanation form.* This form shows the basis for a department's request for funds to pay personnel costs in the next fiscal year. It usually includes cost data related to current salaries, salary increases, overtime, social security, and new employees.

The budget officer reviews departmental requests and prepares an integrated budget for submission to the governing authority. Although this review can include formal hearings in which the constitutional officers, other county and state elected officers who receive funding through the county, and department heads defend and justify their requests publicly, the process is usually informal, with considerable day-to-day interaction as the budget officer and the department heads resolve specific details.

Once the review is completed, the budget is presented to the governing authority, usually six weeks before the beginning of the fiscal year. When the budget is submitted to the governing authority, a copy must be placed in a public location convenient to all residents. In addition, availability of the budget must be advertised the same week that the budget is made public.[29]

The budget document submitted to the commissioners should include (1) a budget message, (2) a budget summary, and (3) detailed budget requests.

Budget Message

The budget message describes the significant features of the proposed budget; identifies the differences between the proposed budget and the current budget and explains the reasons for these differences; discusses new programs contained in the budget; identifies and explains the need for additional revenue sources; identifies major accomplishments achieved during the year; and identifies public needs that were recognized as important but could not be addressed in the proposed budget.

Budget Summary

The budget summary shows estimated revenues by major source and requested expenditures by departments and activity. It also presents a detailed schedule, by department, of funds requested for capital expenditures.

Detailed Budget Requests

This portion of the proposed budget provides detailed expenditure data by major expenditure item (object code) for each department. It also includes expenses, which are not charged to specific departments (i.e., bond redemption, judgments, and losses, etc.). Finally, it contains revenue estimates by major and minor revenue sources.

Adoption

The second stage of the budgetary process, adoption, is the responsibility of the county commissioners. The adoption stage provides an opportunity to review the performance of county operations and to assess the quality and level of services delivered. Review of the proposed budget normally takes four to six weeks. Although a budget or finance committee often conducts a major part of the review, budget adoption requires formal action by the board.

The commissioners are required by state statute to conduct a public hearing to consider the budget.[30] This hearing provides citizens and various community interest groups an opportunity to present their views on various aspects of the proposed budget. The county commission can also request that the budget officer, the constitutional officers, other county and state elected officers who receive funding through the county, and/or department heads come before it to explain and discuss specific elements in the budget request. Although not required, the county commission can conduct more than one public hearing.[31]

After required hearings are held and any changes are made, the budget is ready for adoption. The commissioners must take two actions in order to adopt the budget:

1. It must enact a revenue resolution or ordinance establishing the tax levy.
2. It must enact a budget resolution or ordinance appropriating funds to departments.

With adoption, the budget is no longer a proposal or a request for funds. The so-called legislative budget has become the management budget. This budget guides the implementation of the commissioners' policies and programs and serves as a benchmark for making judgments about performance.

Execution

The third stage in the budgetary process, the execution stage, has been referred to as the "action phase of budgeting," when plans contained in the budget are actually put into operation.[32] While there is inevitably "a push and pull between flexibility and control,"[33] historically, budget execution has been viewed as a way of maintaining control over the use of resources, as county governments put into practice the various policies and programs authorized in their budgets. In a democracy, where the power of the purse rests with legislative bodies, managerial controls must be established to ensure that actual spending does not exceed appropriations and that resources are expended only for those purposes intended by the legislative body.

Fund Accounting

The most important component of a management control system is the accounting structure employed to record and report a county's financial transactions. Accounting systems vary significantly from one county to another. (See Chapter 16 for an explanation of basis of accounting.) Many counties, especially the most populated, employ integrated computer-based financial management systems, but many others continue to rely on bookkeepers. No matter how basic or sophisticated the system of budget execution, accounting for the resources appropriated by the board of commissioners remains a fundamental need.

Unlike accounting in profit organizations (where the corporate organization itself is a single, accountable entity), governmental accounting involves the use of multiple funds, reflecting the existence of multiple accounting entities.[34] Fund accounting has evolved in the public sector to keep track of revenue from many different sources that is designated for a variety of specific purposes and activities. Most county services and administrative activities (i.e., law enforcement, fire, public works, and financial administration) are supported by tax revenue and are accounted for in the general fund. However, appropriations designated for debt service and revenue generated by specific revenue sources for a specified purpose must be accounted for separately in other governmental funds.

Counties also engage in activities that are self-supporting, which are funded by fees and charges rather than general tax revenue (e.g., water and sewer, utilities, mass transit, golf courses, etc.). Financial transactions and financial reports related to these activities must be kept separate so that the "profitability" of the enterprise can be determined. They are accounted for in proprietary funds.

The Governmental Accounting Standard Board suggests that counties employ 11 generic fund types that fall under three fund categories. These fund types are described in some detail in Chapter 16.[35]

Budgetary Accounting and Preauditing

Budgetary accounts and preaudits are as important to a management control system as the use of fund accounting. Budgetary accounts are established for each activity and line item contained in the adopted budget. The budgetary expenditure accounts, referred to as appropriations, contain resources that the county is authorized to expend during the fiscal year.

The appropriations balance is reduced routinely as expenditures are made. In fact, prior to expending funds, it must be determined that the appropriations balance is sufficient to cover the expenditure. This control technique is referred to as the preaudit function. Generally accepted accounting principles, reflecting this concern for control, require that yearly financial reports compare budgeted revenues and budgeted expenditures with actual revenues and actual expenditures.

Auditing

The final stage of the budgetary process involves a retrospective examination of the process of budget execution. Auditing represents an attempt to check and evaluate county operations within a given fiscal year. Audits provide feedback to the governing authority and other county officials on the integrity of financial transactions and formal reporting, on the efficiency of program operations, and on the effectiveness of county policies and programs.

The three types of audits are financial audits, performance audits, and program audits. As noted in the section on state legal requirements, counties are required to have a financial audit prepared. An independent accounting firm usually performs the financial audit in the months immediately following the fiscal year end. This audit must be prepared according to generally accepted governmental auditing standards and must contain the required basic financial statements. The audited financial statements are collectively referred to as the "annual financial report."

The annual financial report also includes a letter from the auditor containing its judgment about whether or not the financial statements are a fair representation of the county's financial position, the results of its operations, and cash flows of its proprietary funds (funds that are self-sustaining, usually through charges and fees).

Because performance audits and program audits are not required by state statute, most counties do not conduct these audits. Those counties that do usually have an in-house staff of management analysts. Performance audits are also referred to as efficiency audits and represent attempts to measure the level of activity performed in specific divisions and departments. Performance audits focus on workload measures; information such as numbers of assaults investigated per shift, books loaned per week, and building permits issued per month is recorded. These workload measures allow management to monitor changes in the level of effort and the effect of these changes on performance.

Program audits focus on results rather than level of activity or workload measures. These audits require the skills associated with evaluation research and represent an attempt to assess the effectiveness of program operations. Effectiveness is defined as the extent to which the results of program operations are consistent with the program's goals and objectives. In order to make a judgment about effectiveness, it is necessary to measure the effect that the program actually has on the community. Assessing program impact produces information that allows the county to decide whether the results from specific programs are worth the investment or whether community resources might be better used to pursue other policies and programs.

Overlap of Budgeting Stages

The four stages of budgeting—preparation, adoption, execution, and auditing—overlap significantly. For example, while the budget request for FY 2011 is being prepared, the budget for FY 2010 is being executed (and perhaps amended), and the audit for FY 2009 is being conducted. During the subsequent phase, the governing authority reviews the budget request for FY 2011, considers the audit report for FY 2009, and makes decisions concerning any necessary budget amendments for FY 2010—all in the same time period. The situation is further complicated because the county's fiscal year may be different from those of the state (July 1–June 30) and federal (October 1–September 30) governments. When local funds must be budgeted to match federal or state funds, discrepancies in fiscal years can confound the county budget process.

BUDGET VALUES AND BUDGET FORMATS

Three values pervade the county budgetary process—control, management, and planning[36]—regardless of the budget practice or procedure a local government uses. Each value is reflected in a specific budget format that provides a framework within which budgetary decisions are made and budgetary data presented. The three most common budget formats are line-item budgets, performance budgets, and program budgets. All budget decisions require information, which will vary with the format. The format chosen by a particular jurisdiction will largely depend on the extent to which budget decision makers are concerned with controlling the use of public resources (line item) and/or making judgments about how efficiently (performance) and effectively (program) those resources are used. Stronger executive leadership is important if counties are to achieve greater administrative efficiency and responsiveness to their citizens.[37]

Line-Item Budgets

Control-oriented budgets frequently take the form of very detailed line-item descriptions of authorized expenditures. The focus in the budgetary process is on line items, or objects of expenditure (e.g., personnel, pencils, gasoline). Originally, budgets were designed primarily to give elected officials more control over how public money was spent. They were intended to reduce the potential for corruption and waste in county government. Although this format achieves its objective of control, it also creates a relatively inflexible financial management system that may not allow administrators enough leeway to make minor adjustments when unanticipated problems or opportunities arise. For this reason, a strict line-item budget usually is not preferred. Rather, less restrictive line-item formats are found in county budgets today. Table 19-3 shows a simplified example of a line-item budget reflecting a strong control orientation.

Performance Budgets

Management is another focus of public budgets, often reflected in the use of performance budgets. Like performance audits, performance budgets are more concerned with efficiency than with control over expenditure decisions. In such budgets, workload data and performance indicators are provided to illustrate the efficiency of the services described. Table 19-4 presents a simplified example of a performance budget format.

Program Budgets

Focusing on broad overall functions rather than on agencies or specific tasks, the program budget emphasizes planning. As the example in Table 19-5 shows, a program budget is concerned with programs rather than with departments or objects of expenditure. Sometimes, however, additional detail in program budgets is desirable to specify how program

Table 19-3. *Example of Line-Item Budget Format*

Item	Budget
Salaries—governing authority	$11,000
Wages and salaries—other personnel	38,400
Per diem	2,250
Payroll taxes	8,500
Health insurance	6,700
Life insurance	5,800
Postage	900
Utilities	2,900
Gasoline and motor oil	1,300
Telephone service—local	2,175
Telephone service—long distance	300
Debt service	13,850
Total	$214,100

funds are to be allocated to departments and objects of expenditure. Many program budgets do contain line-item detail (see Table 19-6).

Budgetary Trends

State law does not require that Georgia counties follow any prescribed budget format. Rather, a county usually selects a format that reflects the primary focus of its budget and the level of financial detail that county officials want to include. The National Association of Counties has expressed the concern that because line-item budgets "merely state what each department and other administrative units plan to buy, [they] fail to inform the taxpayer what he is really receiving for his money [and tend to] 'hamper' as much as aid the deliberative processes of county government."[38] While it is true that county commissions or the governing authority are central to the budget process and that they must exercise

Table 19-4. *Example of Performance Budget Format (Sanitation Services Program Only)*

Service		Budget
Refuse Collection		
1. Personal services		$3,500
2. Contractual services		500
3. Supplies and materials		500
4. Capital outlay		1,000
	Total	$5,500
Performance Statistics		
Residential Collections		
Pickups per week from residences:		1,000
Tons of refuse collected per year:		375
Cost of collection per ton:		$8
Cost per dwelling = pickup per year:		$3
Total annual cost:		$3,000
Commercial Collections		
Commercial stops—two pickups per week:		100
Tons of refuse collected per year:		250
Cost of collections per ton:		$8
Cost per stop per year:		$20
Total annual cost:		$2,000

Source: Adapted from Arthur A. Mendonsa, *Simplified Financial Management in Local Government* (Athens: Institute of Government, Institute of Community and Area Development, and Center for Continuing Education, University of Georgia, 1969), 164, 167.

Table 19-5. *Example of a Simple Program Budget Format*

Program	Budget
General administration	$28,000
Public safety	21,000
Water services	110,500
Sanitation services	17,000
Roads, streets, and bridges	14,300
Recreation services	2,000
Total	$192,800

control through the use of the line-item format, the view that county budget decisions can benefit from other kinds of information has gained some acceptance over the years.

Local governments, especially larger jurisdictions, increasingly are using more sophisticated results-oriented budget formats. For example, several counties across Georgia, including Gwinnett County and Athens–Clarke County, use performance measures as part of the budget process. However, the line-item budget remains one of the more commonly used formats.[39]

The lack of appropriate measures of performance has hampered budget reform and the use of results-oriented budgeting. However, one

Table 19-6. *Example of a Detailed Program Budget Format (Public Safety Only)*

Program	Item	Budget
Public Safety	Salaries—Police	$18,000
	Uniforms—Police	700
	Gasoline and oil—Police	2,400
	Vehicle maintenance—Police	500
	Telephone—Police	700
	Operating supplies—Police	400
	Salaries—Fire	15,000
	Uniforms—Fire	600
	Total	$51,900

study of county governments found that analytic competency and political support can lead to increased use of performance measurement in budgeting, which can result in more efficient, effective, and accountable government.[40]

BUDGET-RELATED POLICIES

County commissioners must address many important questions as they assume their budget-making responsibilities. A few of these questions are presented below. A prudent board of commissioners is one that develops agreed-upon responses to such recurrent questions and, further, formalizes its responses in policy statements intended to guide future actions.

Must the Budget Balance?

Georgia law requires counties to adopt balanced budgets.[41] When the budget is balanced, revenues must equal expenditures. However, there are two scenarios in which revenues and expenditures need not be equal: (1) when the county is trying to accumulate resources, usually for cash-flow purposes, for capital items, or for unforeseen emergencies; or (2) when the county has incurred a deficit fund balance (i.e., actual expenditures have exceeded revenues) in prior years and wishes to eliminate this problem. In Georgia, this second option is not allowable unless the county has an adequate unreserved fund balance (i.e., the accumulated difference between revenues and expenditures over the life of the fund) from the previous year to cover the difference between revenues and expenditures in the proposed budget.

How Much Should a Fund Balance Be?

Fund balance can refer to "reserves" or "rainy day" funds, but accountants define fund balance as the difference between the assets and the liabilities on the balance sheet or the difference between revenues and expenditures since the fund (e.g., the general fund) was created. Accounting rules allow counties to reserve portions of fund balance. When a portion of fund balance is reserved, it is not available to spend. Reserves usually result from legal restrictions. The portion of fund balance that is not reserved, or the unreserved fund balance, is what is available to spend in the subsequent year.

Although this question is one of the most frequently asked by local government elected officials, there is no easy answer to the question regarding size of fund balance. There are situations in which a very high balance could present a problem. Like businesses, counties must have adequate resources to meet their payrolls and pay their bills. Counties use fund balances to meet these cash-flow needs; businesses refer to such resources as "equity" or "retained earnings." But there is also a significant difference between counties and businesses. Because businesses operate to make a profit; they can never have too much equity. By contrast, counties operate to provide social and essential services. Therefore, if a fund balance becomes too large, a county can be criticized for taxing its residents and businesses beyond what it needs for current operations. Adopting a financial policy that explains why a certain fund balance is being maintained will help a county's position if a taxpayer were to sue the county for levying excess property taxes.

Although some taxpayers might question the need for any fund balance at all, there are some convincing arguments that support maintaining adequate fund balances. The primary argument is that fund balances need to be maintained to ensure adequate cash flow. If a county relies heavily on property taxes (as opposed to sales taxes) to finance its operations, cash-flow problems can result. For example, some counties operate within a calendar fiscal year (January–December) but do not receive their property taxes until November or December. Therefore, the year is almost over before the property taxes are available to spend. Counties can either maintain an adequate fund balance to cover cash-flow requirements during the year or borrow money for this purpose (usually through the issuance of tax anticipation notes). The more conservative approach would be to accumulate adequate fund balance to cover cash flow problems and thereby avoid interest costs associated with borrowing money.

Some counties accumulate fund balances to cover contingencies not provided for in the budget that require expenditures. Contingency funds are used for emergencies such as flooding caused by excess rainfall, the explosion of a gas main on a county road, or the collapse of a county bridge. Some counties include separate contingency accounts in their budget; others use fund balance for this purpose.

Many counties across the United States maintain fund balances equal to the equivalent of one to three months of operations. For example, if a county's expenditure budget is $12 million, the policy might be to maintain a fund balance of $1 million (i.e., one-twelfth of $12 million). Only in extreme cases (i.e., in which cash-flow problems require larger fund balances) do county fund balances exceed three months of operations. Again, there is no "right answer" as to how much a county's fund balance should be.

Do Appropriations Lapse at the End of the Fiscal Year?

When a portion of a county's adopted budget remains unspent at the end of the year, what happens to that amount? Georgia law does not appear to address this issue specifically. Generally, governing authorities use one of three financial policies to address this question. Under the most common policy, any unspent appropriations lapse at the end of the fiscal year and are not carried forward to the subsequent year. Any outstanding encumbrances (e.g., purchase orders outstanding) at year's end must therefore be reappropriated in the subsequent year, usually through a budget amendment, thereby increasing the budget. The county commission must reappropriate the amount of encumbrances; however, it has detailed information about the encumbrances that must be carried forward because they have been outlined in the previous year's budget.

Another policy stipulates that if any part of an appropriation is encumbered, that portion is added (i.e., carried forward) to the subsequent year's budget automatically. When a county adopts this policy, the commission need not take any legal action regarding encumbered appropriations that are carried forward. Some county commissions adopt this financial policy because they see no need to formally approve a carryover of items budgeted in the previous year.

A third policy approach allows all unencumbered appropriations (i.e., any portion of an appropriation that has not been charged with expenditures) to be carried forward. This policy makes it possible for department directors to accumulate appropriations from year to year, but keeping track of the budget can be complicated. Few counties use this policy. Generally, it is recommended only for capital projects.

NOTES

1. Portions of this chapter are drawn from Ronald B. Hoskins, "Budgeting," in *Handbook for Georgia Mayors and Councilmembers*, 2nd ed., ed. J. Devereux Weeks (Athens: Carl Vinson Institute of Government, University of Georgia, 1984), and Arthur A. Mendonsa, *Simplified Financial Management in Local Government* (Athens: Institute of Government, Institute of Community and Area Development, and Georgia Center for Continuing Education, University of Georgia, 1969).
2. John V. Witherspoon, "Budgeting," in *Guide to County Organization and Management* (Washington, DC: National Association of Counties, 1968), 171.
3. Lon Sprecher, "Operating Budgets," in *Local Government Finance: Concepts and Practices*, ed. John E. Peterson and Dennis R. Strachota (Chicago: Government Finance Officers Association, 1991), 45.
4. For a more detailed discussion of local government budgeting, see Robert L. Bland and Irene S. Rubin, *Budgeting: A Guide for Local Governments* (Washington, DC: International City/County Management Association, 1997), and Roy T. Meyers, ed., *Handbook of Government Budgeting* (San Francisco: Jossey-Bass,

1998). With regard to recent improvements in local government budgeting and financial management, see Roland Calia, Salomon Guajardo, and Judd Metzgar, "Best Practices in Budgeting: Putting NACSLB Practices into Action," *Government Finance Review* 16 (April 2000): 9–17.

5. For a thorough and useful summary of state legal requirements related to local government budgeting, which is updated annually after each session of the Georgia General Assembly, see Paul Hardy, Betty J. Hudson, Myra Byrd, Richard W. Campbell, and Paul E. Glick, *Compliance Auditing in Georgia Counties and Municipalities: A Practical Guide to State Laws for Auditors and Local Government Officials* (Athens: Carl Vinson Institute of Government, University of Georgia, 2010), 141.
6. Official Code of Georgia Annotated (O.C.G.A.) tit. 36, ch. 81.
7. O.C.G.A. §36-81-3(e). Also see *Uniform Chart of Accounts for Local Governments in Georgia*, 2nd ed. (Atlanta: Georgia Department of Community Affairs, 2001). See the DCA's Web site (www.dca.ga.gov) for more information.
8. O.C.G.A. §§36-81-2, 36-81-3, 36-81-5.
9. O.C.G.A. §36-81-3(a).
10. O.C.G.A. §36-81-5(a).
11. O.C.G.A. §36-81-5(e).
12. O.C.G.A. §36-81-5(g).
13. O.C.G.A. §§36-81-3(b)(3), 36-81-6(a).
14. O.C.G.A. §36-81-6(a).
15. O.C.G.A. §36-81-3(d).
16. Guidelines for audit preparation are contained in *State and Local Government Committee*, *Audit and Accounting Guide: Audits of State and Local Governmental Units* (New York: American Institute of Certified Public Accountants, 2002).
17. Although subject to change, generally accepted accounting principles (GAAP) represent the consensus at any given time as to how the financial accounting process should operate and how financial statements should be prepared. The authoritative GAAP statement is found in *National Council on Governmental Accounting*, *Governmental Accounting and Financial Reporting Principles* (Chicago: Municipal Finance Officers Association, 1979). More recently, the Governmental Accounting Standards Board has been created, and the Government Finance Officers Association publishes a monthly newsletter on accounting, auditing, and financial reporting titled the *GAAFR Review*.
18. O.C.G.A. §36-81-7(a)(1), (2).
19. O.C.G.A. §36-81-7(d)(1).
20. O.C.G.A. §36-80-21.
21. O.C.G.A. §36-81-2(14).
22. O.C.G.A. §36-81-5(b).
23. O.C.G.A. §§36-81-2(14), 36-81-3(d)(2).
24. For an insightful discussion of the intricacies and complexities of the budgetary process generally, see Aaron Wildavsky, *Politics of the Budgetary Process*, 3rd ed. (Boston: Little, Brown and Co., 1979). For a discussion of the local government process, see Witherspoon, 45–64.
25. This distinction between legislative and management budgets comes from Robert N. Anthony and David W. Young, *Management Control in Nonprofit Organizations* (Homewood, IL: Richard D. Irwin, 1984), 357–59.
26. Witherspoon, 56.

27. Anthony and Young, 366.
28. Jack Rabin, W. Bartley Hildreth, and Gerald Miller, "Budgeting: Formulation and Execution," in *Public Budgeting Laboratory* (Athens: Carl Vinson Institute of Government, University of Georgia, 1996).
29. O.C.G.A. §36-81-5.
30. O.C.G.A. §36-81-5(f).
31. O.C.G.A. §36-81-5(h).
32. Robert D. Lee Jr. and Ronald W. Johnson, *Public Budgeting Systems*, 2nd ed. (Baltimore: University Park Press, 1977), 209.
33. Witherspoon, 61.
34. For two basic introductions to governmental accounting, see Leo Herbert, Larry N. Kellough, and Alan Walter Steiss, *Governmental Accounting and Control* (Monterey, CA: Brooks/Cole, 1984), and Paul E. Glick, *A Public Manager's Guide to Government Accounting and Financial Reporting* (Chicago: Government Finance Officers Association, 1990).
35. National Council on Governmental Accounting, 9.
36. These values are discussed in some detail in Allen Schick, "The Road to PPB: The Stages of Budgetary Reform," *Public Administration Review* 26 (December 1966): 243–58.
37. Beverly A. Cigler, "County Governance in the 1990s," *State and Local Government Review* 27 (Winter 1995): 55–70. On the role of executive leadership more generally, see National Commission of the State and Local Public Service, *Hard Truths/Tough Choices: An Agenda for State and Local Reform* (Albany: Nelson A. Rockefeller Institute of Government, State University of New York, 1993).
38. Witherspoon, 172.
39. Daniel E. O'Toole and Brian Stipak, "Budgeting and Productivity Revisited: The Local Government Picture," *Public Productivity Review* 12 (Fall 1988): 1–12.
40. Xiaohu Wang, "Performance Measurement in Budgeting: A Study of County Governments," *Public Budgeting and Finance* 20 (Fall 2000): 102–18. Also see Joni Leithe, *Implementing Performance Measurement in Government* (Chicago: Government Finance Officers Association, 1997), and David N. Ammons, ed., *Accountability for Performance: Measurement and Monitoring in Local Government* (Washington, DC: International City/County Management Association, 1995).
41. O.C.G.A. §36-81-3(b)(1).