



Town of Knightdale Fiscal Policies

SUBJECT: Budget, Fund Balance, Capital Reserve, Capital Improvement, Debt

EFFECTIVE DATE: October 18, 2017; Revised March 15, 2023

APPROVED BY: Town Council

DISTRIBUTION: Mayor and Council Members, Town Manager, Town Clerk, Town Attorney, and Department Directors.

Budgetary Policy

- In accordance with The Local Government and Fiscal Control Act, the Town will adopt a balanced budget each year per G.S. 159-8. A balanced budget is when the projected sum of net revenues and appropriated fund balance equal the estimated expenditure appropriations for the upcoming fiscal year.
- The tax rate will be set annually based on the cost of providing general government services and repayment of debt service obligations.
- The Town will set an annual Fee Schedule that maximizes user charges in lieu of ad valorem taxes where the costs are directly related to the levels of service provided.
- Expenditure budgets are reviewed by the Town Staff, the Town Manager, ~~The Finance Committee~~, and Town Council prior to adoption and are continually monitored throughout the budget year. Funds appropriated in the annual budget will only be spent for the purposes for which they are intended.
- For continuing contracts, funds will be appropriated in the annual budget ordinance to meet current year obligations arising under the contract, in accordance with North Carolina General Statutes.

Fund Balance Policy

- Unassigned fund balance refers to funds that remain available for appropriation after all statutory, previous designations, and expenditure commitments have been calculated.
- At the close of each fiscal year, the Town will strive to maintain a level of ~~unrestricted~~ unassigned fund balance of 25% of expenditures. Expenditures are defined as General Fund expenditures plus transfers to other funds less any debt proceeds. Any excess funds may be utilized for other municipal purposes, such as but not limited to operational needs, debt reduction, and emergency situations.

Capital Reserve Fund Policy

- Following the delivery of the audited financial statements of the Town, the Finance Officer will calculate the unassigned fund balance of the General Fund.
- Any unassigned fund balance in excess of 40% of expenditures will be transferred to the General Capital Reserve Fund for future capital needs. Expenditures are defined as General Fund expenditures plus transfers to other funds less any debt proceeds. ~~This amount is determined by dividing the sum of General Fund Expenditures and General Fund transfers to other funds (minus any restricted revenues) less the proceeds of installment debt.~~
- Transfers to the General Capital Reserve Fund will be made on or before February 1 each year. The Town will strive to maintain a General Capital Reserve Fund of no less than \$500,000.
- The Town will place the proceeds of the sale of assets and “windfall” income, unbudgeted or unexpected revenue, from any source into the General Capital Reserve Fund for future capital needs when such amounts exceed \$100,000.

General Fund Contribution to Capital Improvements Plan

- The amount calculated by the Finance Officer equal to two (2) cents of the tax rate shall be transferred to the General Capital Reserve Fund for future capital needs. This amount is determined as:
 - 1) The estimated tax base for the coming year;
 - 2) Less an allowance for uncollected taxes;
 - 3) Divided by 100;

- 4) Multiplied by \$0.02.
- This amount will be identified as the General Fund Contribution to Capital Improvements Plan.

General Capital Reserve Fund for Parks and Greenways Maintenance

- Additionally, the amount calculated by the Finance Officer equal to one-half (0.5) cents of the tax rate shall be transferred to the General Capital Reserve Fund for future maintenance of parks and greenways. This amount is determined as:
 - 5) The estimated tax base for the coming year;
 - 6) Less an allowance for uncollected taxes;
 - 7) Divided by 100;
 - 8) Multiplied by \$0.005.
- This amount will be identified as the General Fund Contribution to Capital Maintenance Funding.

Capital Improvement Policy

- The Town will update an annual five (5) year Capital Improvements Program which details each capital project, the estimated cost, description, funding source(s), and effect on the Town's operating budget.
- The Capital Improvements Program will generally address those capital assets with a value exceeding ~~\$50,000~~10,000 and a useful life over five (5) years.
- The Finance Department shall prepare a funding schedule for review by the Town Manager, ~~the Finance Committee~~, and the Town Council for inclusion in the annual budget.
- Restricted revenue sources will be utilized whenever possible before unrestricted sources.

Debt Policy

- The Town will utilize a balanced approach to capital funding using debt financing, fund balance, capital reserves, and pay-as-you-go appropriations.

- No appropriation of the proceeds of a debt instrument will be made except for the purpose for which such debt instrument was intended. Debt financing will not be used to finance current operating expenditures.
- Capital projects financed through the issuance of bonds will be financed for a period not to exceed the expected useful life of the project.
- The Town will strive to maintain a debt ratio of no greater than ~~44~~15% of the anticipated expenditures for the current fiscal year's budget.
- The Town will strive to maintain debt funding flexibility to maximize capacity for both identified and unanticipated capital needs and opportunities.