SECTION 3
BUDGETING

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3.1 PURPOSE

The budgeting process enables Navajo County to implement an itemized, authorized, and systematic plan of operation. Budgets assist in management control and provide the legal authority to levy taxes, collect revenue, and make expenditures in accordance with the budget. The budgeting process provides an opportunity to examine the makeup and feasibility of a county's resources, programs, and activities and results in a document that reflects a county's objectives and priorities. The budget is used to monitor and control operations for the fiscal year.

Although budgets are developed internally by county management, they are also influenced by taxpayers, legislators, government agencies, private industry, and county staff. The concerns of these groups are addressed either directly or indirectly in the budgeting process.

3.2 LEGAL REQUIREMENTS

The legal requirements governing county budgeting are primarily derived from Arizona Revised Statutes (A.R.S.) and are summarized below. A summary of pertinent dates in the budgeting process is presented in Section 1, Calendar of Events.

A. The Board of Supervisors must determine the budgets of all elected and appointed county officers listed under A.R.S. §11-401. A.R.S. §11-201(A)(6).

B. On or before the third Monday in July each year, the County must prepare:

   1. A full and complete statement of the County's financial affairs for the preceding fiscal year,

   2. An estimate of the different amounts that will be required to meet the county's expenditures/expenses for the current fiscal year entered in the minutes of the Board of Supervisors and containing the items prescribed by A.R.S. §42-17102, and

   3. A summary schedule of estimated expenditures and revenues in accordance with forms supplied by the Office of the Auditor General that must also be entered in the board's minutes. A.R.S. §42-17101.

C. The budget estimates must be fully itemized in accordance with forms developed by the Office of the Auditor General:

   1. Estimated amounts for each department, public office, or official.

   2. A complete disclosure and statement of the estimated expenditures for the current fiscal year, showing total expenditures by fund and the total for all funds. A.R.S. §42-17102(B).

D. Estimated total expenditures must not exceed the county's annually adjusted expenditure limitation as provided by the Economic Estimates Commission. A.R.S. §42-17102(C).

E. Once the budget is tentatively adopted, the county must publish its proposed budget, or summary thereof, and a notice of a public hearing and special meeting of the Board of Supervisors to hear taxpayers and make tax levies at designated times and places. The proposed budget, or summary thereof, and notice must be published once a week for at least 2 consecutive weeks in the official newspaper of the county, if there is one, and if not, in a newspaper of general circulation in the county. If a truth in taxation notice and hearing is required by A.R.S. §42-17107, the Board may combine, in one publication, the proposed budget and notice of public hearing and special meeting of the Board with the truth in taxation notice. When publishing the truth in taxation notice, the first publication must be at least 14 but not more than 20 days before the date of the truth in taxation hearing; the second publication must be at least 7 but not more than 10 days before the date of the hearing. A.R.S. §§42-17103 and 42-17107

F. The Board of Supervisors must hold the public hearing and special meeting on or before the 14th day before the day on which it levies taxes as stated in the notice under A.R.S. §42-17103. If a truth in taxation hearing is required under A.R.S. §42-17107, the Board may combine the hearing on the proposed budget and the special meeting of the board with the truth in taxation hearing. If the Board of Supervisors fails to comply with the requirements of A.R.S. §42-17107, the Board must not fix, levy, or assess an amount of primary property taxes that exceeds the preceding year's amount, except for amounts attributable to new construction. A.R.S. §§42-17104 and 42-17107

G. After the hearing on the proposed budget is concluded, the Board of Supervisors must convene in a special meeting and finally determine and adopt the estimates of proposed expenditures. The adopted estimates constitute the budget of the county. A.R.S. §42-17105(A) and (B)

H. Total expenditures/expenses adopted in the final budget must not exceed total expenditures/expenses that were estimated in the proposed budget. A.R.S. §42-17105(C)

I. Except as provided, a county may not:

1. Expend monies for a purpose that is not included in its budget.

2. Expend monies or incur or create a debt, obligation, or liability in excess of the amount stated for each purpose in the adopted budget for that year, regardless of whether the county has received, or has on hand, sufficient monies to do so. A.R.S. §42-17106(A).

J. The Board of Supervisors may transfer monies between budget items if all of the following apply:

1. The monies are available.

2. The transfer is in the public interest and based on a demonstrated need.

3. The transfer does not result in a violation of the limitations prescribed in Article IX, §§19 and 20, of the Arizona Constitution.

4. The Board of Supervisors approves the transfer by a majority vote at a public meeting. A.R.S. §42-17106(B).

K. On or before February 10 of the tax year, the County Assessor must transmit and certify to the property tax oversight commission and the Board of Supervisors the total net primary assessed values that are required to compute the levy limit prescribed by A.R.S. §42-17051. For the purposes of A.R.S. §42-17052, these values must not be changed for the official calculation of levy limits and tax rates after February 10 without the approval of the Property Tax Oversight Commission. These values must include the finally equalized valuation of all property, less estimated exemptions, appearing on the tax roll for the current tax year. In addition, the values must include the value of the property on the personal property tax roll determined in accordance with A.R.S. §42-17053. If the proposed primary property tax levy, excluding amounts that are attributable to new construction, is greater than the amount levied in the preceding year, then the county must comply with truth in taxation requirements. A.R.S. §§42-17052 and 42-17107.

L. When a tax rate is to be determined and taxes are levied, the County Assessor must make an estimate of the personal property to be added to the tax roll for purposes of computing the property tax rates pursuant to A.R.S. §42-17151. A.R.S. §42-17053.

M. On or before February 15 of the tax year, the Board of Supervisors must make available for public inspection the values determined in each numbered paragraph of A.R.S. §42-17051(A), relating to the computation of the maximum allowable primary property tax levy limit. A.R.S. §42-17055(A).

N. On or before the third Monday in August each year, the Board of Supervisors must:

1. Fix, levy, and assess the amount to be raised from primary property taxation and secondary property taxation. This amount, plus all other estimated sources of revenue and unencumbered balances from the preceding fiscal year, must equal budgeted expenditures for the current fiscal year.

2. Designate the amounts to be levied for each purpose included in the adopted budget.

3. Set a primary property tax rate and a secondary property tax rate, rounded to four decimal places on each $100 of taxable property shown by the finally equalized valuations of property, less exemptions, that appear on the tax rolls for the fiscal year. When extended, those valuations will produce the entire amount to be raised by direct taxation for that year. A.R.S. §42-17151(A).

O. The Board of Supervisors must not fix, levy, or assess an amount of primary property taxes in excess of the amount permitted by A.R.S. §§42-17051(A)(7) or 42-17005 as determined by the property tax oversight commission. In addition, within 3 days after the final levies are determined, the County's chief fiscal officer must notify the property tax oversight commission of the amount of the primary property taxes levied. A.R.S. §42-17151(B) and (C).

P. The first half of the amount of taxes on real and personal property is due and payable on October 1 and the remaining half of the taxes is due and payable on the following March 1. The first half of the amount of taxes on real and personal property that is unpaid is delinquent after 5 p.m. on the first business day of November and the remaining half that is unpaid is delinquent after 5 p.m. on the first business day of the following May. If the total amount of taxes is $100 or less, then the entire amount is due and payable on October 1 and becomes delinquent after 5 p.m. on the first business day of November. A.R.S. §42-18052.

Q. The Board of Supervisors may by a two-thirds vote of its membership request a property tax levy limit override, which constitutes secondary property taxes. The request for a secondary property tax levy must be submitted to county voters at an election held on the first Tuesday following the first Monday in November. A.R.S. §42-17201(B) and (C).

R. The Board of Supervisors must, at the time of levying other property taxes, levy a county fire district assistance tax on the taxable property in the county, not to exceed 10 cents per $100 of assessed valuation. A.R.S. §48-807(A).

S. By August 1 each year, a fire district must submit to the Board of Supervisors an itemized estimate of the amounts required for the equipment and maintenance of the district for the ensuing year. The Board must, in addition to any tax levied to pay bonds issued in accordance with A.R.S. §48-806, levy a tax not more than $3.25 per $100 of assessed valuation against all property within the district's boundaries and appearing on the last assessment roll. The levy must be made and the taxes collected as provided by law for the collection of general county taxes. A.R.S. §48-807(E) and (F).

T. The property tax levy amounts collected pursuant to A.R.S. §42-17203:

1. Must not be included in the levy limitation pursuant to A.R.S. §42-7051 for any subsequent year.

2. Must be collected from a levy of secondary property taxes. Are not subject to levy limitations prescribed by Article IX, §19, subsection 5, of the Arizona Constitution, except as provided in A.R.S. §42-17203.

U. In addition to any other limitation that may be imposed, a county must not levy primary property taxes in any year in excess of an aggregate amount computed pursuant to A.R.S. §42-17051(A).

V. The Board of Supervisors, on behalf of a political subdivision that has issued refunding bonds, during each year the bonds are outstanding, must levy a tax on all property in the political subdivision for which the bonds are issued, sufficient to pay the interest on all bonds then outstanding and the annual installment of the principal that is due in the next year. A.R.S. §35-474.

W. If the Board of Supervisors receives written notice of a violation of its allowable levy limit or truth in taxation limit under A.R.S. §42-17003, and has not appealed the Property Tax Oversight Commission's decision pursuant to A.R.S. §42-17004, the Board of Supervisors must correct its primary property tax levy and tax rate to properly reflect the allowable levy for the current year. If the board receives the notice after it is too late to correct the levy in the current year, the difference between the amount actually levied and the allowable primary tax levy must be set aside in a special fund and used to reduce the primary property taxes levied in the following year. A.R.S. §42-17005(A).

3.3 BUDGET PROCESS

A. Budget Planning Process

1. As recommended by the Government Finance Officers Association (GFOA) Best Practices in Public Budgeting, our budget planning begins with development of broad goals to guide Navajo County in the decision making process.

2. The Navajo County five year strategic plan will be reviewed annually by the Strategic Plan Team. With the organizations strategic goals clearly defined, Navajo County Administration and Finance Department review fiscal impacts for the upcoming year. Revenue sources, projected increases in expenses, impacts from outside sources and economic factors are considered. This information is used to develop "Budget Guidelines". The budget guidelines are reviewed with Elected Officials and Department Directors before being formally adopted by the Board of Supervisors.

3. Elected Officials and Department Directors use the strategic plan and budget guidelines to develop their department budget and goals. A review of their budgets, department goals and performance measures is conducted by finance prior to budget hearings.

B. Budget Review Process

1. The County Manager and Finance Director will meet with all elected officials and department directors to review budgets, identify budget goals, and establish budget priorities.

2. During the budget process, departments are required to provide revenue and expenditure estimates for the current fiscal year and planned revenues for the following year. The budget team uses these estimates to assist in updating the five-year financial plan which is used to monitor changes in available revenues and expenditure levels. Departments also provide an estimate of available fund balances in their special revenue funds to be carried over to the next fiscal year.

3. The recommended budget is presented to the Board of Supervisors for public hearing and approval. Budgetary changes may occur from the Finance Director and County Manager meetings with elected officials and department directors and from the Board of Supervisors public hearing, and will be updated along with revenue estimates and year-end carry over.

A. Budget Adoption Process

1. Public hearings are held for each department annually at a regularly scheduled meeting of the Board of Supervisors

2. Navajo County adopts its budget on a fiscal year basis beginning on July and ending on June 30 of the following year. The County Manager has the responsibility to develop and present a balanced proposed budget annually to the BOS for all County functions and agencies.

3. This is accomplished in a two-step process consisting of a preliminary budget submitted for approval and a final budget submitted in August by the BOS after final property assessed values are available from the Arizona Department of Revenue and the Navajo County Assessor's Office. By statute, the final budget cannot exceed the preliminary budget in total.

3.4 OPERATING BUDGET MANAGEMENT

A. The County shall annually adopt a balanced budget by fund and department. A balanced budget is defined as a budget in which total expenditures do not exceed total revenues.

B. The County shall not use debt or bond financing to fund current operating expenditures.

C. The County shall generally use only recurring revenues to fund recurring expenditures. Non-recurring revenues shall generally not be used to fund recurring expenditures.

D. The County shall maintain a budgetary control system to ensure adherence to the Adopted Budget and associated appropriations.

E. All departments shall share in the responsibility of meeting policy goals and ensuring long-term financial viability. Future service plans and program initiatives shall be developed reflecting policy directives, projected resources, and future service requirements. In order to ensure proper policy discussion, discontinuation (or "sunset") provisions shall be incorporated into service plans, as appropriate. Budgets are developed to support the Navajo County Strategic Plan.

F. The County will develop and annually update a multi-year financial forecasting system, which will include projections of revenues, expenditures, future costs of current budget decisions and costs, and financing of capital improvements.

G. Requests for increases in funding will be evaluated within the context of the request’s financial impact on the County’s financial condition on an on-going basis, the County’s expenditure limitation, its impact on organizational performance, its future cost-benefit to the County, and its importance in accomplishing specific goals of the strategic plan for the organization.

H. The County shall move in the direction of identifying internal services that can be allocated to the different funds and departments of the organization. This allocation should be equitable, based on the use of these services. An indirect cost plan shall be prepared every year to determine the allocation basis for such services.

I. Full reporting of all costs, direct and indirect, current and future, will be expected as part of new funding and service decisions. Grant funds will be expected to cover their full cost or be leveraged to the fullest extent possible.

J. When deficits appear to be forthcoming within a fiscal year, spending during the fiscal year must be reduced sufficiently to create a positive cash balance. This responsibility resides with the department.

3.5 CAPITAL BUDGET MANAGEMENT

A. The capital budget provides resources for capital maintenance and future capital needs, without adversely affecting the operating budget. The allocation of financial resources for capital assets is dependent on available funding.

1. The County shall establish an adequate contingency for the maintenance and orderly replacement of capital assets. This is to protect the County's capital investments and minimize future maintenance costs.

2. The cost of all new capital projects should include a projection of the future maintenance costs of the assets.

3. Expenditures for maintenance supplies and materials or replacement items (other than motor vehicles) along with lease/purchase costs shall be budgeted as an operating item. These appropriations will not be placed in the capital budget.

4. The County shall purchase capital assets using pay-as-you-go financing whenever economically feasible. When economic and statutory constraints make pay-as-you-go financing impractical or financially unwise, the County will consider conservative borrowing to fund the acquisition of capital assets.

5. The County shall develop a five-year capital improvement plan (CIP) which shall be updated annually. The CIP shall be used to plan for major capital acquisitions, such as road construction projects, building construction or acquisition, and major building improvements.

B. Capital Expenditure Carryover

1. The Board of Supervisors adopts an annual budget which includes every department's approved expenditures for the year, with the dollar amounts distributed in detail according to the category of expense. Policy guidelines and the criteria for requesting and approving carryovers are as follows:

   a. A department may request to carryover an approved capital expenditure appropriation into the next fiscal year when they do not expect to expend all of the appropriation for the project by the end of the current fiscal year. Requests to carryover operating budget items, however, should be limited to special studies or special projects. As with capital, the request should be based on the department's estimate that the project or study will not be completed in the current fiscal year.

b. Departments should submit carryover requests during the budget process when they identify current expenditure appropriations that will need to be completed in the next fiscal year.

c. Budget appropriation dollars must exist in the current year's annual budget so that there is already an appropriation that may be carried over to the next year. Requests for carryovers will be funded from the same source as the original appropriation.

d. The original budget appropriation from which the carryover is being requested will almost always be a one-time increment. If the carryover is approved, then the carryover amount is a one-time appropriation in the next fiscal year's budget, and does not become part of that department's base budget.

e. Approval of carryover requests is subject to available funds. Grants and Special Revenue Funds need to specify the funding source for every carryover request.

f. The total actual expenditures for all years may not exceed the total project budget, regardless of the annual amount appropriated. The budget team reviews budgeted carryovers after the close of the fiscal year and adjusts them to meet this criteria.

2. Capital expenditures are the most frequent type of carryover request. Often a project is begun in one fiscal year but must be completed in the next fiscal year. This is especially true of major road construction and maintenance projects, building construction or renovation projects, and purchases of major pieces of equipment where the delivery date is after the end of the current fiscal year. Salary and ERE and operating budget appropriations generally do not meet the criteria for carryovers. A request for additional staff must be submitted as an increment request, not as a carryover, since money for the additional FTE is not specifically included in the current budget.

3.6 REVENUE BUDGETING

A. Funding for public programs should be derived from a fair, equitable and adequate resource base, while minimizing tax differential burdens.

1. The County will try to maintain a diversified and stable revenue structure to shelter it from the short-term fluctuations in any one revenue sources.

2. The County will follow an aggressive policy of collecting tax revenues. The County shall continuously explore new sources for revenue.

3. The County shall consider user fees, when appropriate, to fund services. User fees should be used when there is a direct relationship between the costs of the service and the user. User fees allow the County to provide services without increases to the general tax burden.

4. The County will establish recovery rates for direct and indirect costs for user fees and charges. These shall be regularly reviewed to determine if pre-established recovery goals are being met.

5. Fees are adopted by the Board of Supervisors and are periodically reviewed.

6. The County will conservatively estimate its annual revenues by an objective, analytical process. This will include the use of historical trends, current local economic trends, national and global economic trends, and changes in State and Federal laws and policies.

3.7 RESERVE FUND BUDGETING

A. Responsible reserve policies will provide adequate resources for cash flow and contingency purposes, while maintaining reasonable tax rates.

1. The County will maintain a contingency for cash liquidity purposes in the County General Fund equal to at least 10% of its annual operating budget.

2. The County will maintain a contingency account for the General Fund's annual operating budget to provide for unanticipated expenditures, or to meet unexpected increases in service demands. Use of these funds is subject to the County Manager's approval.

3. In other significant funds, currently the Highway User Revenue, and Debt Service funds, the County will maintain, whenever possible, a contingency fund for cash liquidity purposes equal to at least 10% of their annual operating budget. This will be evaluated on a fund by fund basis.

4. Available fund balances shall not be used for on-going operating expenditures unless a determination has been made that available balances are in excess of required guidelines and that plans have been established to address future operating budget shortfalls. For using fund balances, emphasis shall be placed on one-time uses.

5. An annual review of cash flow requirements and appropriate fund balances shall be undertaken to determine whether modifications are appropriate for the reserve/contingency policies.

3.8 DEBT MANAGEMENT

A. Responsible debt management policy maintains the County's ability to incur present and future debt at minimal interest rates in amounts needed for infrastructure and economic development without endangering its ability to finance essential County services.

6. The County will not fund current operations from the proceeds of borrowed funds.

7. The County will confine long-term borrowing to capital improvements or projects.

8. When the County finances capital projects by issuing debt, it will repay the debt within a period not to exceed the expected useful life of the project.

3.9 DEPARTMENTAL RESPONSIBILITIES

A. Each department is responsible for managing its budget and ensuring compliance with these policies and procedures, i.e. performing the ongoing tracking of revenues and expenditures each month to guard against expenditures in excess of budget or the under-collection of budgeted revenues. Departments should be prepared to explain unexpected variances from the budget.

B. Departments may spend appropriations within their operations budget without formally reallocating the budget between line items. Budget compliance according to State Statute is at the department or fund level.

C. Requests for transfers between salaries and the other budget categories should be submitted to the County Manager for approval. The department should submit the request with an analysis of how this change will impact the department's budget. One-time salary savings cannot be used to fund recurring expenditures.

D. The responsibility for projecting the on-going impact will be calculated by the department and must accompany budget requests.

E. To aid departments in managing their budgets, the Finance department should send out monthly expenditure and revenue reports to each department, and include a year-to-date percentage of budget for each line item.

8.10 BUDGETARY CONTROL

A. The principal goal of budgetary control is to ensure that actual expenditures do not exceed budgeted expenditures. The adopted budget establishes the basis for all transactions throughout the year and facilitates the monitoring of financial activity. Subsequent control is exercised throughout the fiscal year by the use of daily budgetary control, budgetary accounting, budget reports, budget revisions, and a year-end analysis of budget performance.

1. Navajo County departments may spend appropriations within their operations budget without formally reallocating the budget between line items. Budget compliance according to State Statute is at the department or fund level.

2. Budgetary Control — Navajo County maintains budgetary control to ensure that actual expenditures do not exceed budget limits at the fund level. Control is accomplished by reviewing purchase orders to monitor the level of encumbrances and to determine the remaining unencumbered balances.

3. Budgetary Accounting — Budgetary integration into the accounting systems is ordinarily accomplished automatically through the use of information technology systems, although it may also be accomplished through traditional journal entries.

4. Budget Reports — Budget reports are used to continuously monitor budget capacity and performance. Budget reports comparing actual results to budgeted amounts should be prepared at least monthly and departments should review them on a timely basis.

8.11 BUDGETARY REPORTING

A. For reporting in Navajo County's annual financial statements, under the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, Navajo County presents a budgetary comparison for the general fund and any major special revenue funds for which budgets have been adopted. Consequently, in addition to the general fund, Navajo County presents this comparison for all major special revenue funds, since Arizona law requires that all county special revenue funds be included in the adopted budget. Navajo County may choose to present this comparison as a basic governmental fund financial statement. The budgetary comparison includes the original (adopted) budget, the final amended budget (which includes legally authorized transfers between line items), and actual amounts. Regardless of where the Navajo County chooses to report this information, it allows citizens, legislators, and others to assess the county's budgetary performance.

1. The Office of the Auditor General develops annual county budget forms as required by Arizona Revised Statutes (A.R.S.) §§42-17101 and 42-17102. Each county must complete the official budget forms in accordance with the detailed instructions provided. However, Navajo County may choose to add more information or detail than is required.