
Coates' Canons Blog: Transfers between an Enterprise Fund and the General Fund

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Many local government officials, reticent to increase their unit's property tax or other tax rates, look to alternative revenue sources to support general government services and activities. One potential source of revenue is that generated from the fees and charges assessed on "customers" of a unit's public enterprise services (such as water, sewer, solid waste, electric, natural gas, or stormwater services). This source of revenue may be particularly enticing to local officials if a substantial portion of the enterprise revenue is generated from non-resident customers (customers residing outside the local government's territorial boundaries). But, may a local unit transfer the revenue earned from its public enterprise services to support its General Fund expenditures? The answer is maybe. It depends, in part, on the amount of revenue generated by the enterprise activity and the specific public enterprise service from which the revenue was derived.

First a little background on local government accounting. According to **G.S. 159-26**, a local unit generally must establish and maintain an accounting system that includes, among other funds, a General Fund and a Fund for each public enterprise owned or operated by the unit (to the extent required under Generally Accepted Accounting Principles). A fund is a separate fiscal and accounting entity with its own self-balancing set of accounts; its own assets, liabilities, and equity; and its own revenues and expenditures. The General Fund is the main operating fund of the government and accounts for all transactions that are not properly accounted for in another fund.

Transfers from an Enterprise Fund to the General Fund

G.S. 159-13(b)(14) states that "[n]o appropriation may be made from a utility or public service enterprise fund to any other fund than the appropriate debt service fund unless the total of all other appropriations in the fund equal or exceed the amount that will be required during the fiscal year, as shown by the budget ordinance, to meeting operating expenses, capital outlay, and debt service on outstanding utility or enterprise bonds or notes." This provision, thus, actually authorizes a local unit to transfer monies from an Enterprise Fund to the General Fund, as long as all of the budgeted expenses for the enterprise activity are covered for the fiscal year.

Does that then mean that a local government may set its public enterprise utility rates so as to earn a profit to supplement the General Fund? Not necessarily. To determine if a transfer can be made to the General Fund, you also have to consider any limitations on the use of the public enterprise revenue.

There are no explicit restrictions on the use of water or sewer revenue (other than those imposed by **G.S. 159-13(b)(14)**, bond covenant requirements, or local ordinances). There are restrictions on solid waste revenue—statutorily, the revenue from most solid waste fees and charges must be used only to support solid waste services. See **G.S. 160A-314.1**; **G.S. 160A-317(c)** (municipalities) and **G.S. 153-292**(counties). Similarly, stormwater fee revenue must be used only to support stormwater services. See **G.S. 160A-314(a1)(2)** (municipalities) and **G.S. 153A-277(a1)(2)**(counties). And, **G.S. 159B-39** restricts transfers from an electric fund for certain electricities.

Note that the above restrictions do not prohibit a local unit from using enterprise revenue (from any of the enterprise activities) to compensate the General Fund for any reasonable overhead expenses, such as for administrative oversight and support. This allowance, however, should not be used to circumvent the statutory or local policy limitations.

Authority to Make Transfers

Finally, who has the authority to make transfers between the Enterprise Fund and the General Fund? Only the governing board. Although, pursuant to **G.S. 159-15**, the governing board may authorize the unit's budget officer to transfer moneys from one appropriation to another within the same fund, the governing board may not delegate the authority to transfer moneys among different funds.

Links

- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-26.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-13.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_160A/GS_160A-314.1.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_160A/GS_160A-317.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_153A/GS_153A-292.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_160A/GS_160A-314.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_153A/GS_153A-277.html
- www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159B/GS_159B-39.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-15.html