Our Agenda

• The Local Government Budget and Fiscal Control Act

• Understanding the budget process
  – Timelines for budget preparation and adoption
  – The role of fund balance
Agenda (cont.)

• The role of the Local Government Commission
  – Brief history
  – Responsibilities

• Capital planning and financing options

• The annual audit process
What is the Local Government Budget and Fiscal Control Act?

- State legislation that contains the fiscal requirements which local officials must follow in regard to the multiple aspects of public budgeting and financial management

- Chapter 159 of the NC General Statutes
Fiscal Requirements from LGBFCA

For entities with the manager form of government, the manager shall be the budget officer; for Mayor-Council, any employee or elected official, including the Mayor.

The budget officer shall submit a proposed balanced budget to the governing board.

In each year of a revaluation, the budget officer shall include a revenue-neutral tax rate in the budget for comparison purposes.
Budget Calendar

• The statutory budget calendar is budget requests to budget officer by April 30;

• Proposed budget to governing board no later than June 1; and

• Adopted budget ordinance on or before July 1.

• Interim budgets?
Budget Adoption

Presentation to the Board and notice of availability for public inspection

10 days must pass before budget may be adopted

Public hearing must be held before budget may be adopted
Public Hearing Timelines

- 10 days at least must pass before the budget may be adopted
  
  - Public hearing may occur at any time after the budget is presented, even during the 10-day inspection period
  
  - Often, the public hearing is held immediately before the budget is adopted (even if amendments are made)
Balanced Budget Formula

Estimated Revenues

+ Appropriated Fund Balance

= Appropriations
Significant Revenues

• Property tax
  – Valuation is county responsibility and is established by January 1 for the following fiscal year.
  – Tax levy = (assessed value / 100) x tax rate.
  – The estimated percentage of collection for property taxes, which cannot exceed the current collection percentage, is multiplied by the tax levy to determine the revenue estimate for balancing the budget.
Significant Revenues (cont.)

• Sales tax
  – County levy that is collected by state.
  – All counties levy a 2.0 percent sales tax – 1.5 percent is returned to county on point of delivery and 0.5 percent on per capita basis.
  – County shares with municipalities based on per capita or ad valorem formula.
What is Fund Balance?

- Fund balance is the *financial equity* of a fund
- Assets – Liabilities = Fund Balance
- Fund balance represents *potential* spendable equity
Why Do We Care About Fund Balance Levels?

• Working capital
• Emergencies
• Source of capital financing
• Bond rating
• Balancing the budget
Governmental Fund Equity

1. Nonspendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned
Economic vs. Financial Perspectives

- Assets – Liabilities = Equity
- Economic equity represents *all* assets and *all* liabilities
  - Business perspective; likewise for proprietary funds and government-wide picture
  - Such equity referred to as *net position*
- Financial equity represents *financial* assets and *current* liabilities
  - Unique perspective of the governmental funds
  - Such equity referred to as *fund balance*
Net Position

- Equity used for proprietary funds (e.g., water, wastewater, electric)
- Equity position of the government-wide financial statements

**Net position does not reflect liquidity**

- Represents an *economic equity*
  - Net investment in capital assets
  - Restricted net position
  - Unrestricted net position
Who is the Local Government Commission (LGC)?

- The LGC, which is a division of the Department of State Treasurer, provides state oversight of North Carolina local finance.
History of the LGC

• Much pain in NC due to the boom period after WWI
  – Debt increased 700%
  – Legitimate needs for roads & schools
  – Lack of statutory control
• By 1931, the Great Depression had hit NC hard
History of the LGC (continued)

- Over 200 bank failures by the mid 1930s
- Governmental entities responded by slashing budgets
- By 1933, many governments in default
  - 62 counties
  - 152 municipalities
  - 200 special tax districts
The Local Government Commission

- Nine members
- Chaired by State Treasurer
- Staff to the Commission are employees of the Department of State Treasurer

Other members:
- State Auditor
- Secretary of State
- Secretary of Revenue
- 5 appointed positions
Local Government Commission Staff (continued)

- Fiscal Management Section-monitors the financial condition of local governments and public authorities
  - Monitors cash management and investments
  - Assists units with financial difficulties
  - Reviews audit reports of units
Local Government Commission Staff (cont.)

– Debt Management Section reviews and monitors the sale and repayment of debt:

• Provides technical assistance to units in capital planning and debt management
• Recommends approval of debt issuance based upon fiscal practices, compliance with General Statutes and feasibility studies or projections of operations
• Sells debt for the state and local governments
• Informs units of annual debt service requirements
• Monitors the repayment of the debt
Capital Planning and Budgeting

• Local governments often use a separate process, known as capital budgeting, for acquiring major capital assets.
• When the capital budget includes a multi-year forecast (5 years) of capital needs, it becomes a capital improvement program.
• Predetermined criteria are commonly used to make decisions regarding capital asset acquisitions (mandate, public safety, etc.)
Capital Financing Options

- *Pay-as-you-go financing*
  - Annual budget
  - Fund balance
  - Capital reserve fund (G.S. 159-18)
Capital Reserve Funds

- Capital budgeting tool *available* to local governments in NC

- G.S. 159-18 thru 159-22

- May used for any purpose for which a local government may issue bonds
Capital Reserve Funds (cont.)

• May be established by ordinance or resolution by the governing board
  – Purpose(s) for fund
  – Approximate time periods in which monies are to be accumulated for each purpose
  – Approximate amounts to be spent for each purpose
  – Sources of the funds
Capital Reserve Funds (cont.)

- Amendments may be made and purposes changed
- **However, the purpose MUST remain some type of capital purpose**
- Future boards may not undo
- Withdrawals must be authorized by a resolution or ordinance
Other Capital Financing Options

- **General obligation bonds**: secured by taxing power and requires voter referendum. Commonly used for major infrastructure projects.

- **Revenue bonds**: secured by net revenues of self-supporting enterprise and commonly used for water and sewer projects.
Other Capital Financing Options (cont.)

- **Project development bonds**: secured by the revenues generated from the tax increment created from public and private development in a project development financing district.

- **Installment purchase financing**: secured by property financed. Commonly used for infrastructure projects and large equipment.
Financial Reporting and the Annual Audit

• Purpose of an audit is to ensure that financial statements report the financial position of a local government in accordance with generally accepted accounted principles (GAAP)
Local Government Financial Reporting in NC

- NC state law requires adherence to generally accepted accounting principles (GAAP) for annual external financial reporting
  - GAAP represents national standardized reporting
  - Necessary for participation in debt market and grant environment
  - All local governments and public authorities, regardless of size, must adhere to requirement
  - Reports are due to the LGC no later than Oct. 31
What is an audit?

• Unmodified (“clean”) audit opinion required
  – Formerly referred to as unqualified
  – If such opinion cannot be reached, entity required to correct issue(s)
    • Can impact debt issuances, etc.

• Auditors cannot “audit their own work”

• Presumption is that if financial statements follow GAAP, then financial condition will be evident
What is an audit? (cont.)

- Auditing standards have greatly “tightened up” on the relationship between auditor and client
  - Many governments receive findings that they have a weakness because staff cannot prepare their own financial statements
  - Auditors can propose entries and financial reporting options, but decisions may only be made by the entity’s management
Products of an Audit

• Ask for a review a management letter!
  – Auditing standards require one must be provided
  – Identifies areas where weaknesses may be detected, procedures could be improved for efficiencies, concerns regarding management cooperation could be communicated
  – All items are expected to be addressed by management prior to the next audit cycle
Questions?

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