

# Introduction to the Local Government Budget and Fiscal Control Act (LGBFCA)

## *Outline of LGBFCA's Provisions*

### **Article 3. The Local Government Budget and Fiscal Control Act**

#### ***Part 1. Budgets***

- 159-7. Short title; definitions; local acts superseded.
- 159-8. Annual balanced budget ordinance.
- 159-9. Budget officer.
- 159-10. Budget requests.
- 159-11. Preparation and submission of budget and budget message.
- 159-12. Filing and publication of the budget; budget hearings.
- 159-13. The budget ordinance; form, adoption, limitations, tax levy, filing.
- 159-13.1. Financial plan for intragovernmental service funds.
- 159-13.2. Project ordinances.
- 159-14. Trust and agency funds; budgets of special districts.
- 159-15. Amendments to the budget ordinance.
- 159-16. Interim budget.
- 159-17. Ordinance procedures not applicable to budget or project ordinance adoption.
- 159-17.1. Vending facilities.

#### ***Part 2. Capital Reserve Funds.***

- 159-18. Capital reserve funds.
- 159-19. Amendments.
- 159-20. Funding capital reserve funds.
- 159-21. Investment.
- 159-22. Withdrawals.

#### ***Part 3. Fiscal Control***

- 159-24. Finance officer.
- 159-25. Duties of finance officer; dual signatures on checks; internal control procedures subject to Commission regulation.
- 159-26. Accounting system.
- 159-27. Distribution of tax collections among funds according to levy.
- 159-27.1. Use of revenue bond project reimbursements; restrictions.
- 159-28. Budgetary accounting for appropriations.
- 159-28.1. Facsimile signatures.
- 159-29. Fidelity bonds.
- 159-30. Investment of idle funds.

- 159-31. Selection of depository; deposits to be secured.
- 159-32. Daily deposits.
- 159-32.1. Electronic payment.
- 159-33. Semiannual reports on status of deposits and investments.
- 159-33.1. Semiannual reports of financial information.
- 159-34. Annual independent audit; rules and regulations.
- 159-35. Secretary of Local Government Commission to notify units of debt service obligations.
- 159-36. Failure of local government to levy debt service taxes or provide for payment of debt.
- 159-37. Reports on status of sinking funds.
- 159-38. Local units authorized to accept their bonds in payment of certain claims and judgments.

***Part 4. Public Hospitals.***

- 159-39. Special regulations pertaining to public hospitals.

***Part 5. Nonprofit Corporations Receiving Public Funds.***

- 159-40. Special regulations pertaining to nonprofit corporations receiving public funds.

***Part 6. Joint Municipal Power Agencies and Joint Municipal Assistance Agencies.***

- 159-41. Special regulations pertaining to joint municipal power agencies.

***Part 7. Public Housing Authorities.***

- 159-42. Special regulations pertaining to public housing authorities.

**Article 11. Enforcement of Chapter.**

- 159-181. Enforcement of Chapter.
- 159-182. Offending officers and employees removed from office.

## Exercise

Use the LGBFCA's provisions to answer the following questions. Document the statute number(s) that correspond to each answer.

### True or False

1. A local government or public authority may use monies placed in a capital reserve fund to pay for any capital projects.

False. A local government only may use monies in a capital reserve fund for the purposes stated when the fund was created or amended by the governing board. G.S. 159-18; G.S. 159-19.
2. A local government or public authority is prohibited from passing on credit card or debit card administrative charges to individuals who pay for local government services electronically.

False. A local government is *statutorily* authorized to pass on credit card or debit card administrative charges to individuals who pay for local government services electronically. G.S. 159-32.1. (Note that credit card companies or financial institutions *contractually* may prescribe conditions for passing on fees to customers.)
3. A local government's or public authority's finance officer determines the financial institutions in which to deposit public funds.

False. The governing board designates the official depositories for the unit. G.S. 159-31.
4. A governing board may request submission of an unbalanced budget.

True. The governing board may authorize or request the budget officer to submit a budget containing recommended appropriations in excess of estimated revenues. G.S. 159-11(c).
5. A governing board may adopt an unbalanced budget.

False. G.S. 159-13(c).
6. If a local government or public authority does not follow the provisions of G.S. 159-28(a) when entering into an obligation (ordering or contracting for goods or services) the obligation is invalid and cannot be enforced.

True. G.S. 159-28(a). "An obligation incurred in violation of this subsection is invalid and may not be enforced."

7. A finance officer must provide a fidelity bond (true accounting and faithful performance bond) of at least \$10,000.

False. A finance officer must give a true accounting and faithful performance bond of not less than \$50,000. G.S. 159-29.

8. All local governments and public authorities must record or show encumbrances in their accounting systems.

False. Only municipalities with a population over 10,000 and counties with a population over 50,000 are required to maintain an accounting system that records and shows encumbrances outstanding against each category of expenditure appropriated in the budget ordinance. G.S. 159-26(d).

9. A local government or public authority must make a daily deposit.

True. G.S. 159-32 requires a local government or public authority to deposit all collections daily. However, if the governing board gives its approval, deposits may be required only when the moneys on hand amount to at least \$250.

10. A local government always must include a revenue neutral tax rate in its budget ordinance.

False. G.S. 159-11(e) requires a local government to include a revenue neutral tax rate in its budget ordinance in each year in which a general reappraisal of real property has been conducted.

11. Monies generated by vending machines located in a local government or public authority do not need to be appropriated in a budget ordinance before they can be spent.

False. G.S. 159-17.1 states that “moneys received by a public authority, special district, or unit of local government on account of operation of vending facilities shall be deposited, budgeted, appropriated, and expended in accordance with the [LGBFCA]” This means that any revenues generated from vending sales must be appropriated in the budget ordinance before they can be spent.

12. G.S. 159-13 prohibits a local government from transferring any utility fee proceeds from the enterprise fund to the general fund to expend for general government purposes.

False. G.S. 159-13(b)(14) states that “no 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 meet operating expenses, capital outlay, and debt service on outstanding utility or enterprise bonds or notes.”

13. A budget ordinance must be adopted by a majority of the governing board.  
  
False. Unlike other ordinance, a budget ordinance may be approved by a simple majority of the governing board members that are present and voting, as long as a quorum is present. *See G.S. 159-17.*
14. A local government or public authority may pay any outstanding obligation by credit card or procurement card.  
  
True. G.S. 159-28(d) specifies that “[a] local government or public authority may not pay a bill, invoice, salary, or other claim except by a check or draft on an official depository, a bank wire transfer from an official depository, or an electronic payment or an electronic funds transfer originated by the local government or public authority through an official depository.” A credit card or procurement card payment constitutes an electronic payment.
15. If a local government or public authority fails to meet its debt service payments (to repay its borrowed funds) the Local Government Commission can force the unit to make these payments.  
  
True. *See G.S. 159-36.*
16. If the county finance officer also serves as the finance officer for a Tourism Development Authority (a separate legal entity from the county), the county finance officer must have two performance bonds, each in the amount of at least \$50,000.  
  
True. The requirements of G.S. 159-29 that the finance officer give a true accounting and faithful performance bond of not less than \$50,000 applies separately to each unit of government or public authority. Thus, if a single person serves as a finance officer for more than one unit of government or public authority, that person must secure a separate performance bond for each entity.
17. A local government or public authority may adopt a contingent budget.  
  
False. There is no authority to adopt a contingent budget. A local government or public authority must adopt an annual budget ordinance each year in which the estimated net revenues and appropriated fund balance equals appropriations. If a unit is unable to adopt a budget ordinance by July 1, the governing board may adopt an interim budget to pay salaries, debt service payments, and the usual ordinary expenses of the local government or public authority until the budget ordinance is adopted. *See G.S. 159-16.*

18. A local government may maintain one or more petty cash funds to make small dollar expenditures.

False. G.S. 159-28 specifies that “a local government or public authority may not pay a bill, invoice, salary, or other claim except by a check or draft on an official depository, a bank wire transfer from an official depository, or an electronic payment or an electronic funds transfer originated by the local government or public authority through an official depository.

19. A local government must maintain separate funds for each public enterprise activity.

True, except if a water system and sewer system are operated as a consolidated system. G.S. 159-26(b)(4)

### ***Multiple Choice***

1. A local government may change its property tax rate after it is adopted in its yearly budget ordinance for which of the following reasons:
- a. It is ordered to do so by a court.
  - b. It is ordered to do so by a state agency.
  - c. It receives revenues that are substantially more or less than anticipated when it adopted the budget ordinance (but only until January 1).
  - d. All of the above.

G.S. 159-15.

2. How many public hearings are required before the governing board adopts the annual budget ordinance?
- a. 0
  - b. 1
  - c. 2
  - d. 3

G.S. 159-12(b).

3. A budget is balanced when:
- a. Estimated revenues equals appropriations.
  - b. Estimated revenues plus fund balance equals appropriations.
  - c. Actual revenues equals actual appropriations.
  - d. None of the above.

G.S. 159-13(b)(16) – estimated net revenues and appropriated fund balance equals appropriations.

4. A local government or public authority may invest public monies in all of the following, EXCEPT:
- Obligations of the United States.
  - Obligations of the State of North Carolina.
  - International Stocks.
  - Commingled Investment Pool.

G.S. 159-30(c).

5. Which of the following may serve as a budget officer? (circle all that apply)
- county or city manager
  - county or city finance officer
  - county or city clerk
  - county or city law enforcement officer (e.g. sheriff or police chief)
  - chairman of governing board or mayor

G.S. 159-9. If the county or city has manager form of government, then the manager is the budget officer. If county does not have manager form of government, any county officer or employee except sheriff (and except register of deeds if population exceeds 7500). If city does not have manager form of government, any city officer or employee, including the mayor if he/she agrees to undertake them. A public authority of special district may impose duties on chairman or any member of its governing board or any other officer or employee.

***Fill in the Blank***

1. What information should a local unit's annual budget message contain?

G.S. 159-11(b). The budget message should contain a concise explanation of the governmental goals fixed by the budget for the budget year, should explain important features of the activities anticipated in the budget, should set forth the reasons for stated changes from the previous year in program goals, programs, and appropriation levels, and should explain any major changes in fiscal policy.

2. What is the maximum contingency appropriation allowed in each fund?

G.S. 159-13(b)(3). 5 percent.

3. Do local governments and public authorities have to follow the Local Government Commissions Rules and Regulations?

G.S. 159-25(c). Yes. The LGC has the authority to issue rules and regulations having the force of law governing procedures for the receipt, deposit, investment, transfer, and disbursement of money and other assets by units of local government and public authorities, may inquire into and investigate the internal control procedures of a local government or public authority, and may require any modifications in internal control procedures which, in the opinion of the LGC, are necessary or desirable to prevent embezzlements or mishandling of public moneys.

4. What is the definition of a “Fund”?

G.S. 159-7(b)(8). A Fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other resources, together with all related liabilities and residual equities or balances, and changes therein, for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.