Financial Policies

FISCAL POLICY GUIDELINES - OBJECTIVES

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practice of Gaston County, North Carolina. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. Effective fiscal policy:

1. Contributes significantly to the County's ability to insulate itself from fiscal crisis,
2. Enhances short term and long-term financial credit ability by helping to achieve the highest credit and bond ratings possible,
3. Promotes long-term financial stability by establishing clear and consistent guidelines,
4. Directs attention to the total financial picture of the County rather than single issue areas,
5. Promotes the view of linking long-run financial planning with day to day operations, and
6. Provides the County Staff, the County Board of Commissioners, and the County citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.
7. Establishes long term capital planning by use of a Capital Improvement Plan using pay as you go, grants and debt resources, on an affordable basis.
8. Maintain a Community Investment Fund to account for resources available to fund community capital needs coupled with a debt and capital affordability financial model.
9. To these ends, the following fiscal policy statements are presented.

CAPITAL IMPROVEMENT BUDGET POLICIES

1. It is the responsibility of the County Board of Commissioners to provide for the capital facilities necessary to deliver public services to the citizens of the County.
2. The County will consider all capital improvements in accordance with and established capital improvement program (please refer to the CIP Operational Framework).
3. The County will develop a long-term Capital Improvement Program and review and update the plan annually. The Gaston County Public Schools and the Community College System will submit their respective capital improvement requests annually and will provide a prioritization for the improvements within their request for the CIP Committee review.

DEBT POLICIES

1. The County will confine long-term borrowing to capital improvement projects.

2. The County will take a balanced approach to capital funding utilizing debt financing, Capital Reserves and pay-as-you go funding.

3. When the County finances capital improvements or other projects by issuing bonds or entering capital leases, it will repay the debt within a period not to exceed the expected useful life of the project.

4. Payout of aggregate outstanding tax-supported debt principal shall be no less than 50% repaid in 10 years.

5. The County will take advantage of draw note programs related to debt issuance and to build capacity in the CIF.

RESERVE POLICES – GENERAL FUND AND COMMUNITY INVESTMET FUND

1. General Information

Reserve policies govern the maintenance and Fund Balances (FB) inside the two referenced funds. For purpose of defining FB, generally accepted accounting principles (GAAP) is used as guidance due to pronouncements of the Local Government Commission (LGC) and other entities. Under GAAP there are several categories of FB with Unassigned Fund Balance being the amount of FB available for appropriation and use by the County for emergency or other purposes. The other categories deal with certain reservations of FB, in accordance with GAAP, and do not represent FB available for appropriation in accordance with LGC policy and N.C. Statutes.

For purposes of this reserve policy the levels of fund balance to be maintained, by policy, by the County will be Unassigned FB.

2. Defining the Level of FB Need

There are three primary factors in reviewing and determining appropriate levels of FB. They include:

- Predictability of revenues and volatility of expenditures – Determining the levels of collection of revenues and the pace of governmental expenditures can vary and are dependent, in large measure, on the underlying economy and governmental program demands. While County revenues are stable and depend largely on property taxes and sales taxes, the collection of these taxes are not equal by month for an operating year and are determined by statute and practice of the N.C. Department of Revenues. Property taxes are fully due by just after January 1 of a fiscal year with collections largely occurring in November and December of each fiscal year. Sales taxes are collected by the State of N.C. and forwarded to the County on a quarterly basis, in arrears. Accordingly, the FB must account for the cash flow needs based upon the collection cycle of the two primary revenues.

Likewise, while expenditures are not uniform by month they do tend to occur evenly throughout the year for operating purposes. For capital purposes they are not evenly spread and can occur in clusters of expenditure in the fiscal year.

Accordingly, a portion of FB must be maintained to account for the disparity in collection of revenues and the expenditure of governmental funds.

- Liquidity Needs – As described above the occurrence of expenditures and the availability of revenues each year to cover the expenditure cash flow can create liquidity needs. Liquidity is the measurement of available cash funds on an ongoing basis based upon beginning levels of cash and the collection of revenue and expenditure of funds. Adequate liquidity is a measure of financial strength and is measured for its adequacy by the LGC and the bond rating agencies and measures that adequate cash and investments are available to meet operational needs and provide minimum levels of these.

- In addition to managing the disparity between revenue collections and expenditures, liquidity provides available cash to meet emergencies and potential downturns in the economy and resulting impacts on cash flow needs of governments

- Credit Ratings – The County is rated by independent third-party rating agencies. Use of ratings by these agencies is a necessity of issuing bonds by the County in the public markets. The County issues bonds every two to five years and the credit rating agencies review the credit each issuance and on an annual recognizance basis. Based upon one of the credit rating agency criteria, thirty percent of the credit rating is based upon the level of FB and the adequacy of liquidity by the County. Only the economy, at thirty percent of the rating, is as important as the finances of the County measured primarily by the level of fund balance and the adequacy of the liquidity of the County. To help maintain credit standing it is important to adopt and meet FB policies consistent with FB maintained by similar credits and targets contained in the credit criteria.

3. Adopted Fund Balance Levels – Based upon the factors listed above the following policies will govern the FB of the General and Community Investment Funds:

- General Fund Balance will be measured as the value of Unassigned Fund Balance presented in the latest audited financial statements and will be measured and treated in conformance with the following:

    - Total of 15 – 20% of the revenues of the General Fund for the audited fiscal year

    - If FB exceeds 20% in a fiscal year the amount over 20% will be moved to the Community Investment Fund for capital uses or another one time use as adopted by the County Commission by budget amendment

    - If FB drops below 15%, it will be reinstated over a period not exceeding three fiscal years to 20% based upon recommendations made in the annual budget process for the reinstatement period

- Community Investment Fund Balance (CIF) will be measured as the value of Unassigned Fund Balance presented in the latest audited financial statements and will be measured and treated in conformance with the following:

    - Total of 33 - 50% of the debt service accounted for in the CIF for the audited fiscal year

    - If FB exceeds 50% in a fiscal year the amount over 50% will be available in the Community Investment Fund for capital uses as pay as you go expenditures or as an increase to the future debt capacity measured by the CIF debt affordability model

    - If FB drops below 33%, over a three-year period, the FB will be reinstated to 50% based upon recommendations made in the annual budget process for the period

BUDGET DEVELOPMENT POLICIES

1. One-time or other special revenues will not be used for ongoing County operations. One-time or other special revenues will be used to fund special projects if a permanent funding source for operational expenditures should be identified for the County ongoing operations.

2. The County will pursue an aggressive policy seeking the collection of current and delinquent property taxes, utility, license, permit and other fees due to the County.

3. The County will develop its annual budgets in such a manner so as to incorporate historic trend analysis for revenues and expenditures with an adjustment for current financial trends and developments as appropriate.

4. County staff will generate and review reports that show actual revenue and expenditure performance compared to budgeted performance and will present this information to the County Board at least quarterly or more frequently as deemed necessary by staff.

5. Budget amendments will be brought to the County Board for consideration as needed.

6. The Budget & Strategy Office evaluates a multiyear plan when developing the annual budget to link the County's long-term financial goals and strategic plan with its budget development.

CASH MANAGEMENT / INVESTMENT POLICIES

1. It is the intent of the County that public funds will be invested to the extent possible to reduce the need for property tax revenues. Funds will be invested with the chief objectives of safety of principal, liquidity, and yield, in that order. All deposits and investments of County funds will be in accordance with N.C.G.S. 159-30.

2. The Finance Director will establish a Cash Management Program that maximizes the amount of cash available for investment. The Program shall address at a minimum; Accounts Receivable/Billings, Accounts Payable, Receipts, Disbursements, Deposits, Payroll and Debt Service Payments.

3. Up to one-half (50%) of the appropriations to Non-County Agencies and to non-debt supported capital outlays for County Departments can be encumbered prior to December 31. Any additional authorization shall require the County Manager's written approval upon justification. The balance of these appropriations may be encumbered after January 1, upon a finding by the County Manager that there is a reasonable expectation that the County's Budgeted Revenues will be realized.

4. The County will use a Central Depository to maximize the availability and mobility of cash for all funds that can be legally and practically combined.

5. Cash Flows will be forecasted, and investments will be made to mature when funds are projected to be needed to meet cash flow requirements.

6. Liquidity: No less than 20% of funds available for investment will be maintained in liquid investments at any point in time.

7. Maturity: All investments will mature in no more than sixty (60) months from their purchase date.

8. Custody: All investments will be purchased "payment-verses-delivery" and if certificated will be held by the Finance Officer in the name of the County. All non-certificated investment will be held in book-entry form in the name of the County with the County's third-party Custodian (Safekeeping Agent).

9. Authorized Investments: The County may deposit County Funds into: Any Board approved Official Depository if such funds are secured in accordance with NCGS 159 (31). The County may invest County Funds in:

   - Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States

   - Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Fannie Mae, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, the United States Postal Service.

   - Obligations of the State of North Carolina,

   - Bonds and notes of any North Carolina local government or public authority, subject to such restrictions as the Secretary of the Local Government Commission may impose.

   - Savings certificates issued by any savings and loan association organized under the laws of the State of North Carolina or by any federal savings and loan association having its principal office in North Carolina; provided that any principal amount of such certificate in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Commissioner of Banks of the Department of Commerce of the State of North Carolina, be fully collateralized.

   - Prime quality commercial paper Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the obligation.

   - Bills of exchange (Bankers Acceptances) or time drafts (CDs) drawn on and accepted by a commercial bank and eligible for use as collateral by member banks in borrowing from a federal reserve bank, provided that the accepting bank or its holding company is either (i) incorporated in the State of North Carolina or (ii) has outstanding publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations.

   - Participating shares in a mutual fund for local government investment; provided that the investments of the fund are limited to those qualifying for investment under this subsection (c) and that said fund is certified by the Local Government Commission. The Local Government Commission shall have the authority to issue rules and regulations concerning the establishment and qualifications of any mutual fund for local government investment (such as the North Carolina Capital Management Trust).

10. Diversification: No more than 5% of the County's investment funds may be invested in a issuer's commercial paper (CP) or bankers' acceptance (BA) and no more than 25% of the County's investment portfolio may be invested in CP or BA. The combined total investment in CP and BA shall not exceed 35%. No more than 30% of the County's investments may be invested in any one US Agency's Securities.

11. Allocation: Investment income will be allocated to each participating fund or account based on a fair and equitable formula determined by the Finance Director.

12. County staff will generate and review reports that show current investment holdings and will present this information to the County Board at least quarterly or more frequently as deemed necessary by staff.