# Attachment B:
# Debt Requests for Units with Financial Performance Indicators of Concern (FPIC)

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

DENISE H. CANADA
DIVISION DIRECTOR

# REQUESTS FOR LGC APPROVAL OF DEBT BY UNITS WITH MATERIAL FINANCIAL PERFORMANCE INDICATORS OF CONCERN (FPICS)

## BACKGROUND

In 2020, Local Government Commission (LGC) staff changed the North Carolina Administrative Code to define "Financial Performance Indicators" as a tool to identify fiscal management concerns in units of local government subject to LGC oversight. As defined in 20 NCAC 03 .0502:

- **"Financial Performance Indicators"** are values derived from information included in the audited financial statements that assist the Secretary in improving the comparability of reporting a unit's financial condition and financial performance. These criteria include adequacy of a government unit's fund balance; liquidity or the ability to meet short-term obligations; solvency or the ability to meet long-term obligations; debt service coverage; leverage; and such other indicators of financial condition and financial performance as the Secretary may establish.

- **"Financial Performance Indicators of Concern"** are Financial Performance Indicators with values which may indicate inadequate financial conditions or fiscal management concerns.

Under 20 NCAC 03 .0508, if a unit's auditor identifies Financial Performance Indicators of Concern, the unit's governing body must develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" signed by a majority of the governing body and submitted to the Secretary within 60 days of the presentation of the audit. The response must provide a plan to address each Financial Performance Indicator of Concern.

Additional information on FPICs, references to applicable statutes and administrative code, guidance for units, and other related resources are available on the Department of State Treasurer's website.

## LGC CONSIDERATION

When a unit with one or more FPICs requests debt approval from the LGC:

- Staff thoroughly review FPIC responses submitted by the unit.
- If staff deem the FPIC "**material**," the debt request is presented as a separate agenda item so that staff concerns may be presented and LGC member questions addressed.
- Units with material FPICs are requested to have representatives available at the meeting to answer questions.

**FINANCIAL PERFORMANCE INDICATORS GUIDE**

The following tables summarize the Financial Performance Indicators and specify the threshold a unit must meet to avoid an FPIC.

## Table 1: General Fund Financial Performance Indicators

| Indicator | Description | Threshold |
|---|---|---|
| Fund Balance Available (FBA) as a percentage of expenditures | Fund balance available for appropriation is an important reserve for local governments to provide cash flow for emergencies, unforeseen expenditures, and periods of declining revenues. | See below |

| **Municipalities:**<br><br>**General Fund Expenditures** | **Median FBA as a % of Expenditures** (without Powell Bill) | **Minimum FBA as a % of Expenditures** | **Months of FBA Using Annualized Expenditures** |
|---|---|---|---|
| $0 - $100,000 | 260% | 100% | 12.00 |
| $100,001 - $999,999 | 132% | 71% | 8.52 |
| $1M - $9.99M | 63% | 34% | 4.08 |
| $10M+ | 46% | 25% | 3.00 |

| **Counties:**<br><br>**General Fund Expenditures** | **Median FBA as a % of Expenditures** | **Minimum FBA as a % of Expenditures** | **Months of FBA Using Annualized Expenditures** |
|---|---|---|---|
| $0 - $100M | 39% | 20% | 2.40 |
| $100M+ | 32% | 16% | 1.92 |

| | | |
|---|---|---|
| Appropriated fund balance | Fund balance appropriated to cover operating losses may signal ongoing financial issues; if the pattern continues, it can lead to a decline in the unit's available reserves. | Positive change in fund balance |
| Total fund balance | A deficit means that the unit's revenues and other receipts are inadequate to support its operations. | Positive fund balance |

[This section intentionally blank.]

**Table 2: Water/Sewer Financial Performance Indicators**

| Indicator | Description | Threshold |
|---|---|---|
| Capital assets condition ratio | The capital assets condition ratio formula calculates the remaining useful life; a value less than 0.50 may signal the need to replace the assets in the near future. | Remaining useful life of assets greater than or equal to 0.50 |
| Operating Net Income, excluding depreciation, including debt service principal and interest | A negative amount indicates that rates are not covering operating expenses and debt service payments. | Greater than zero |
| Quick Ratio | The "quick ratio" is calculated as current assets divided by current liabilities and provides a measure of financial liquidity in the Water/Sewer fund. A quick ratio of less than 1:<br>• Indicates that current liabilities are greater than unrestricted cash and investments plus accounts receivable.<br>• Could indicate that the fund may have difficulty meeting expenses. If this pattern continues, the fund may not be financially sustainable. | Equal to or greater than 1 |
| Transfers-in to support operations | The rate structure of the Water/Sewer Fund should support the operating expenses of the fund without operating subsidies or transfers from other funds. | Transfers-in of less than 3% |
| Unrestricted cash to total expenses ratio | This indicator calculates how many months of expenses a unit can cover based on its unrestricted cash at year-end; the calculation includes debt principal and interest but not depreciation. The typical billing cycle is one month (8.33% of a year); unrestricted cash equaling two months of expenses (16.66%) is typically sufficient to handle unusual expenses. The 16% threshold is the minimum necessary to keep the fund from experiencing cash flow problems. | Greater than 16% |

**Table 3: Other Performance Indicators**

| Indicator | Description | Threshold |
|---|---|---|
| Date audited financial statements were submitted to the LGC | As stewards of the public's resources, the governing body is responsible for ensuring that the annual financial audit is available timely to the public. | December 31 for units with June 30 fiscal year ends |
| Amount of budgeted ad valorem tax (including motor vehicles) uncollected | Uncollected ad valorem taxes totaling more than 3% of the budgeted amount could be an indicator of negative economic events, inaccurate budgeting, and/or issues with the collection process. | Less than 3% of budgeted ad valorem taxes |
| Expected change in property value at next revaluation | A decrease in property value could result in lost tax revenue. | No estimated decrease |
| Budget violations at the adopted ordinance level | Expenditures that exceed the legal budget ordinance may indicate that the unit's purchase order system, contract approval process, and/or payment process is not in compliance with G.S. Chapter 159. | No over-expenditures |
| Material weaknesses, significant deficiencies, statutory violations, and/or items identified to be addressed in the FPIC response | 20 NCAC 03 .0508 requires a response from the unit addressing each significant deficiency, material weakness, and other audit finding presented to the governing body as well as a plan to address each Financial Performance Indicator of Concern. | None |
| A finance officer or interim finance officer was appointed for the entire fiscal year | G.S. 159-24 requires each local government and public authority to have a finance officer at all times. | Yes |
| The finance officer or interim finance officer was bonded in an amount required by statute | G.S. 159-29 requires that a finance officer give a true accounting and faithful performance bond in an amount not less than the greater of (1) $50,000 or (2) an amount equal to 10% of the unit's annually budgeted funds, up to $1,000,000. | Yes |

[This section intentionally blank.]

**Table 3: Other Performance Indicators (cont'd)**

| Indicator | Description | Threshold |
|---|---|---|
| The unit had late debt service payments and/or did not comply with bond covenants | Debt issued by a unit has established payment schedules and varying covenants or restrictions; failure to make timely payments or to comply with covenants may have negative financial implications and may indicate financial *or* internal control issues. | No |
| Any other issues that affect the unit's fiscal health or internal controls that were communicated to the unit during the audit presentation | The auditor may have reported issues to the governing board that were not required to be disclosed in the financial statements or that did not rise to the level of significant deficiencies or material weaknesses. The unit's FPIC response should explain these issues. | No other issues |

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# LGC Staff Analysis For: **TRINITY, CITY OF**

**PAR Amount Not to Exceed:** $1,354,000

**Financing Type:** State Revolving Fund (SRF) Loan

**Purpose and Type:** Water/Sewer, Sewer

**Project Description:** Wastewater Regionalization Project (SRF-W-0196) – The project will upgrade the Steeplegate Lift Station to a capacity of 1.0 MGD and install 5.5 miles of 12-inch force main. Once complete, it will redirect approximately 98% of the City's wastewater to the City of High Point's Westside Wastewater Treatment Plant. The remaining wastewater will continue to be sent to the City of Thomasville's system for treatment.

**Statutory Reference:** G.S. 159G-40 and 159-52

**Last Request to Borrow:** 10/2014: USDA GO; $3,100,000

**FPICs:** Yes - See Attachment
**UAL Contract:** N/A
**Debt Management:** Information from the Unit shows that debt management procedures and policies are good, or that reasonable assurances have been given that its debt will henceforth be managed in strict compliance with law.

**Proposed contract or bond issue is necessary or expedient:** The City does not have its own wastewater treatment plant and relies on neighboring municipalities for treatment. Redirecting wastewater discharge currently sent to the City of Thomasville to the City of High Point is expected to reduce long-term treatment costs, support future growth, and provide the City with a reliable regional treatment solution.

**Proposed amount is adequate and not excessive:** On August 15, 2024, the City received and opened four bids for the project in accordance with G.S. 143-132. The City awarded the contract to the lowest responsive, responsible bidder.

**Feasibility:** The City's net revenue projections indicate that future revenues will be sufficient to cover the operating costs and debt service. The average monthly sewer bill is currently $116.00 for 4,000 gallons.

**Tax Increase Anticipated:** No **Rate Increase Anticipated:** No

**Additional Information (as applicable):** The City implemented a 33% sewer rate increase July 1, 2026 with plans to align future sewer rate increases to match those implemented by the City of Thomasville.

## Terms

**Lender/Purchaser/Bank:** State of North Carolina – DEQ/DWI
**Interest Rate:** NTE 4.0% (state loan rate: 0%)
**Term:** 20 years
**Payment:** Annual principal
**Structure and Term:** Level debt service
**Final Maturity:** N/A

**Amount Not to Exceed:** $1,354,000

| Sources | Amount |
|---|---|
| American Rescue Plan Act (ARPA) Grant Funds; SRP-W-0064 | $5,994,000 |
| State Reserve Earmark OSBM (S.L. 2023-134) SRP-W-134-0044 | $4,500,000 |
| ARPA Coronavirus State and Local Fiscal Recovery Funds | $2,094,915 |
| SRF Funding; SRP-W-0196 | $1,354,000 |
| **Total** | **$13,942,915** |

| Uses | Amount |
|---|---|
| Construction Costs | $10,989,988 |
| Engineering (Design, Surveying, Permitting, etc.) | $1,100,811 |
| Administration (PER, Easement Purchases/Prep, Reports, etc.) | $731,631 |
| Contingency (5%) | $560,485 |
| City of High Point Interlocal Agreement Capital Fee | $560,000 |
| **Total** | **$13,942,915** |

## City of Trinity: Financial Performance Indicators of Concern (FPIC) FY2025

| | Indicator | Explanation of Indicator | Threshold | Unit Data |
|---|---|---|---|---|
| | Sewer Fund operating net income (loss), excluding depreciation and including debt service principal and interest. | Measures whether Sewer Fund income covers operating costs and debt service, excluding depreciation. | $0 or greater. | ($849,177). |
| | LGC Summary: The City expects additional customers from recent sewer projects to increase revenue while debt service declines as construction debt is repaid. It expects the operating loss to continue to decrease. | | | |
| | Sewer Fund transfers in as a percentage of total operating and nonoperating expenses. | Measures the extent to which the Sewer Fund relies on transfers to meet its obligations. | 3% or less. | Greater than 3%; the response does not state the percentage. |
| | LGC Summary: The City reports that General Fund transfers have declined under new finance leadership. It says sales tax revenues historically helped service debt for sewer phases and the City's share of the City of Thomasville wastewater treatment plant upgrade and expansion. The City plans to reduce transfers as sewer revenues allow, until the fund supports its obligations or the related debt is fully repaid. | | | |

**LGC staff reviewed the response of the City and found it to be acceptable.**

# TRINITY
## NORTH CAROLINA

**RESPONSE TO THE INDEPENDENT AUDITOR'S FINDINGS, RECOMMENDATIONS, AND FISCAL MATTERS FOR THE YEAR ENDED JUNE 30, 2025**

To: State and Local Government
Finance Division

From: City of Trinity

Dear Sir or Madam:

Below we have listed the Performance Indicators and our responses to those findings as a result of the audit for the year ending June 30, 2025.

1. **Performance Indicator**: The City's Operating Net Income (Loss) excluding depreciation including debt service principal and interest was ($849,177) which is below the minimum threshold.

   ***Our Response**: The City will continue to realize additional revenues as more customers are connected to sewer services resulting from recent sewer projects. At the same time, the City's debt service obligations will decline as sewer construction debt is paid down. As a result, the Sewer Fund's operating loss is expected to continue to decrease over time..*

2. **Performance Indicator**: The City's Water and Sewer transfers-in are greater than 3% of the total of operating and non-operating expenses.

   ***Our Response**: Under new Finance leadership, the City of Trinity has successfully reduced transfers from the General Fund. Historically, the City transferred 75% sales tax revenues to the Sewer Fund to service debt associated with Sewer Phases 2–5 and the City of Trinity's portion of the upgrade and expansion of the City of Thomasville's wastewater treatment plant. The City is now moving forward with a plan to make the Sewer Fund self-sustaining and will continue to reduce these transfers as revenues allow, until the Sewer Fund can fully support its obligations or the related debt is fully repaid, whichever occurs first.*

If you have any questions or need any additional information, please feel free to contact me at (336) 431-2180 or email cpostell@trinity-nc.gov .

Sincerely,

Crystal Postell, MBA
Finance Director

Michael Burroughs, MPA, CZO
City Manager

Richard McNabb
Mayor

Robbie Walker
Mayor Pro-Temp

Debbie Jackey
Council Member

Paul Welborn
Council Member