



Budget and Management Services

DATE: May 18, 2017

TO: Jim Hartmann, County Manager

FROM: Michelle Venditto, Director of Budget and Management Services

SUBJECT: WCPSS Fund Balance Background

On December 4, 2007, the Wake County Board of Education adopted *Policy 8101 – Undesignated Operating Fund Balance* to guide the use of the system's undesignated fund balance. The policy includes three major provisions:

- The board targets maintaining an Undesignated Operating Fund Balance no greater than 6 percent of the subsequent year's county appropriation.
- The board will return to Wake County any Undesignated Operating Fund Balance in excess of the specified 6 percent target on an annual basis.
- The board will not use more than 50 percent of its July 1 Undesignated Operating Fund Balance to provide funding to the following year's annual budget.

Wake County Government has not received a return of fund balance from WCPSS since the policy was adopted in 2007, though the school district has had year-end balances exceeding 6 percent in fiscal years 2010, 2011, 2012 and 2013.

WCPSS General Fund Fund Balance Analysis
Source: WCPSS Audited Financial Statements and Annual Operating Budgets.

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Original Fund Balance Appropriation per WCPSS Budget	\$ 12,137,312	\$ 16,118,780	\$ 17,315,260	\$ 9,245,688	\$ 7,034,512	\$ 16,882,975	\$ 34,066,089	\$ 28,400,000	\$ 48,046,701	\$ 34,069,158
Cash and cash equivalents end of year	\$ 47,128,530	\$ 43,648,568	\$ 55,536,564	\$ 73,125,685	\$ 88,330,211	\$ 97,526,870	\$ 94,877,421	\$ 77,957,166	\$ 67,675,618	
Beginning Fund Balance	\$ 42,649,307	\$ 40,328,510	\$ 37,016,641	\$ 32,795,791	\$ 46,108,421	\$ 65,443,541	\$ 92,030,026	\$ 88,183,428	\$ 89,905,785	\$ 68,337,612
Revenues in Excess (less than) Expenditures	\$ (2,405,700)	\$ (3,220,724)	\$ (3,605,636)	\$ 12,971,575	\$ 19,301,738	\$ 27,090,200	\$ (3,968,632)	\$ 1,878,296	\$ (21,044,499)	\$ (11,598,167)
Change in Reserve for Inventories	\$ 84,903	\$ (91,145)	\$ (625,214)	\$ 351,055	\$ 33,382	\$ (503,715)	\$ 122,034	\$ (165,939)	\$ (523,674)	\$ 992,731
Ending Fund Balance	\$ 40,328,510	\$ 37,016,641	\$ 32,785,791	\$ 46,108,421	\$ 65,443,541	\$ 92,030,026	\$ 88,183,428	\$ 89,905,785	\$ 68,337,612	\$ 57,732,186
Fund Balance Designations & Reservations										
Non-Spendable										
Inventories and/or Prepaid	\$ 3,835,802	\$ 3,744,657	\$ 3,119,442	\$ 3,470,497	\$ 3,503,879	\$ 14,591,653	\$ 4,659,385	\$ 7,509,861	\$ 4,082,558	\$ 3,523,924
Restricted										
Encumbrances	\$ 50,156	\$ -	\$ -	\$ 353,523						
State Statute (includes Encumbrances effective FY11)	\$ 1,871,626	\$ 2,144,620	\$ 2,058,865	\$ 2,523,225	\$ 3,661,166	\$ 4,399,049	\$ 3,163,132	\$ 5,542,274	\$ 7,404,038	\$ 4,116,427
Assigned										
Special Projects	\$ 1,020,096	\$ 1,082,014	\$ 701,625	\$ 990,699	\$ 366,342	\$ 3,819,888	\$ 6,008,131	\$ 19,427,037	\$ 10,604,339	\$ 14,270,811
Self-insurance	\$ 4,720,980	\$ 4,424,855	\$ 5,147,789	\$ 5,633,602	\$ 6,739,789	\$ 7,569,663	\$ 8,388,026	\$ 9,309,912	\$ 10,212,545	\$ 10,310,534
Flexible Benefits Plan	\$ 567,832	\$ 789,294	\$ 966,779	\$ 1,104,260	\$ 1,094,173	\$ 1,174,388	\$ 1,244,575	\$ 1,225,223	\$ 1,139,379	\$ 1,229,780
Subsequent Years' Expenditures (Budgeted in Following Year's Budget)	\$ 12,928,333	\$ 7,500,000	\$ 8,665,600	\$ 6,062,845	\$ 16,203,025	\$ 28,389,581	\$ 28,400,000	\$ 26,075,734	\$ 20,000,000	\$ 10,400,000
Unassigned (previously Undesignated)	\$ 15,333,685	\$ 17,331,201	\$ 12,125,691	\$ 25,909,770	\$ 33,875,357	\$ 32,089,863	\$ 36,320,179	\$ 20,215,744	\$ 14,894,753	\$ 13,880,770
Ending Fund Balance	\$ 40,328,510	\$ 37,016,641	\$ 32,785,791	\$ 46,108,421	\$ 65,443,541	\$ 92,030,026	\$ 88,183,428	\$ 89,905,785	\$ 68,337,612	\$ 57,732,186
Next Fiscal Year's County Appropriation	\$ 300,344,100	\$ 316,200,000	\$ 313,503,224	\$ 313,503,224	\$ 314,411,592	\$ 318,341,737	\$ 327,496,020	\$ 337,676,400	\$ 386,000,000	\$ 409,911,000
Unassigned Fund Balance as a % of Next FY's Budget	5.1%	5.5%	3.9%	8.3%	10.8%	10.1%	11.1%	6.0%	3.9%	3.4%
Unassigned Fund Balance plus Designated for Subsequent Years Expenditures as a % of Next FY's Budget (Note 2)	9.4%	7.9%	6.6%	10.2%	15.9%	19.0%	19.8%	13.7%	9.0%	5.9%
Board of Education Fund Balance Policy Guidelines										
Maintain 6% of Next Fiscal Year's County Amount in Excess of (Below) 6% (Return to County)	18,020,646 (2,686,961)	18,972,000 (1,640,799)	18,810,193 (6,684,502)	18,810,193 7,099,577	18,864,636 15,010,461	19,100,504 12,989,359	19,649,761 16,670,418	20,260,584 (44,840)	23,160,000 (8,265,247)	24,594,660 (10,713,950)
50% of its July 1** Undesignated Operating Fund Balance to provide funding to the following year's annual budget	11,104,386	7,666,843	8,665,601	6,062,846	12,954,885	16,937,579	16,044,932	18,160,090	10,107,872	7,447,377
Amount in Excess of (Below) Policy	1,823,948	(166,843)	(1)	(1)	3,248,140	11,448,003	12,355,069	7,915,645	9,892,128	2,952,624

(1) GASB 54 modified Designation and Restriction beginning in FY11. Line items consistent, subsections of fund balance were changed.
(2) Amounts planned for subsequent years' expenditures has consistently not been used.

In FY2015, the county offered recurring funding increases to WCPSS in exchange for remittance of a portion of WCPSS fund balance to the county to pay for debt service related to school construction (see provision in the Wake County FY2015 Operating Budget Ordinance below). WCPSS chose not to participate in this exchange.

Section 4(C): FUND BALANCE EXCHANGE INCENTIVE. A funding incentive is established for WCPSS whereby upon remittance of a portion of WCPSS fund balance to the County, to be deposited in the County Debt Service Fund, the Board of Commissioners will take action to appropriate and set forth increased recurring funding to WCPSS. The additional recurring appropriation will be calculated using the County's debt and capital model and most current financial information available at the time of the remittance to determine the property tax rate required to provide sufficient funding for existing and authorized future debt and capital as well as to maintain a combined general fund and debt service fund fund balance of at least 30% of combined operating revenues. The amount of the recurring appropriation will be the difference between the recalculated property tax rate dedicated to debt and capital and 19.9 cents, the dedicated amount assumed in Section 3.

The Board of Education waived its fund balance policy in at least five different fiscal years:

- **FY2011-12:** Staff was unable to find the minutes from the meeting during which this action was taken, but minutes from the meetings referenced below state that the policy was waived in FY2011-12.
- **FY2012-13:** The Board of Education voted 6-3 to waive the policy and adopt its FY2012-13 budget on May 1, 2012. Passage of the budget required waiving two provisions of the policy, including the direction to use no more than 50 percent of its Undesignated Operating Fund Balance towards funding an annual operating budget, and directing the return of Undesignated Fund Operating Fund Balance to the county amounts in excess of 6 percent of the total County Appropriation.
- **FY2013-14:** The Board of Education voted 7-1 to waive the policy just before adopting the FY 2013-14 budget in a separate vote on May 7, 2013. The budget included a fund balance appropriation of \$28,673,248, which exceeded the 50 percent threshold and required waiving the policy.
- **FY2014-15:** The Board of Education voted unanimously to waive the policy just before adopting its final budget resolution on Oct. 7, 2014.
- **FY2016-17:** The Board of Education voted unanimously to waive the policy in preparation for its Final 2016-17 budget on Aug. 16, 2016. The appropriated fund balance in the budget exceeded the 50 percent threshold, requiring waiving the policy.

Attachments:

1. Fund Balance History

