



STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT


PAT MCCRORY
GOVERNOR

ANDREW T. HEATH
STATE BUDGET DIRECTOR

August 4, 2016

MEMORANDUM

TO: Department Heads and Chief Fiscal Officers

FROM: Andrew T. Heath
State Budget Director 

SUBJECT: Procedures and Process for Disposition of Funds Financed through the Connect NC Bond Authorized in Session Law 2015-280, HB 943.

During the 2015-2016 session, the General Assembly authorized a statewide referendum for the issuance of two billion dollars (\$2,000,000,000) in general obligation bonds. The bonds will provide funds to update the State's public facilities for the 21st century. North Carolina voters overwhelmingly approved the Connect NC Bond referendum on March 15, 2016 by a 2-to-1 margin.

On June 7, 2016, the Council of State voted to authorize the sale of up to \$200,000,000 in general obligation bonds to provide funds for projects outlined in House Bill 934. The management of the general obligation bonds will require our collective efforts to ensure compliance with the procedural and oversight requirements mandated by law and regulations. This sale only provides partial funding for each of the projects. Therefore, The Office of State Budget and Management (OSBM) will be responsible for coordinating requisitions and monitoring actual expenditures against projected cash flows in order to manage the availability of funds.

All recipient agencies must be aware of and comply with the following procedures in order to receive funds from the general obligation proceeds:

- All funds from the sale of general obligation bonds must be spent or obligated within three years from the date of sale (preferably within two years).
- Connect NC funds must be spent within three days after participating agencies receive their deposits with the State Treasurer.
- All vendors must be set up to receive electronic payments (exceptions must be approved by OSC).

- Funds will only be drawn down bi-weekly and will follow the 2016 Debt Proceeds Drawdown Schedule (attached). The first Connect NC issuance is scheduled for the week of August 15, 2016.
- Funds may only be requisitioned for actual invoiced expenses.
- Any funds not expended and all refunds of expenditures must be immediately returned to OSC.
- Funds cannot be used to reimburse other projects or expenses unless written permission is granted from OSBM. The proposed reimbursement expenditures must be included in the Reimbursement Resolution authorized by the Department of State Treasurer.
- The proceeds from general obligation bonds are tax exempt. In order to maintain the tax exempt status, private use of facilities funded from general obligation bonds are greatly restricted as long as the debt is outstanding. Private use is any direct or indirect use in a trade or business that is carried on by any person or entity other than governmental units. For this purpose, the Federal government does not constitute a governmental unit. Use as a member of the general public is not considered private use. Each recipient agency will be required to (i) participate in mandatory training during which private use restrictions will be addressed, (ii) undertake routine reporting requirements and (iii) elevate private use questions and concerns (contact OSBM for further information).
- Copies of all invoices must be kept for six years after the debt is repaid. The general obligation debt is to be repaid in 20 years, so all records of invoices must be kept on file for 26 years.
- General obligation debt should not be comingled with other funds. Each agency must use separate budget codes to track Connect NC bond funds from any institutional or private funds that may be used to supplement a bond project. Once the budget code(s) are established, the agency will prepare budget revision(s) to establish the total authorized project budget based on the source of funds for each budget code. For example, if a project is \$100 million dollars and will be supported by \$75 million from bond funds and \$25 million from private donations, then the bond budget code will have a budget of \$75 million and the budget code containing supplemental non-bond revenue will be \$25 million.
- Allotments will be submitted with each requisition and should only allot the amount of the requisition.
- The initial Connect NC budget codes have been set up by OSBM. OSBM will still need to set up new budget codes for agencies supplementing project costs with other sources of funds. Agencies will be responsible for requesting individual project codes (fund codes).
- Bond expenditures should be reconciled monthly between all systems, including NC Accounting System (NCAS), Cash Management (CMCS), Budget System (IBIS), and Interscope.
- At the beginning of every quarter, agencies must provide OSBM with an updated cash flow model for each project.

Use of Funds for State Personnel: Bond proceeds may not be used to support State personnel for administration of the Connect NC Bond (Sec. 1(d)(2)(c)).

- Applies to: All recipients

Special Allocation Provisions:

Useful Life of Assets: Projects undertaken relating to Repair and Renovation must have a useful life of 10 years or longer, or extend the life of the asset being renovated by 10 years or more (Sec. 1(f)(2)(a), (b), and (f)).

- Applies to: University of North Carolina, North Carolina Community College System, North Carolina Zoological Park

Matching Requirements: Funds utilized by the North Carolina Community College System for new construction only must be matched by local funds in the following manner:

- \$1 of Bond Proceeds for \$3 of local funds for counties in a Tier 1 development area, as designated by the Department of Commerce.
- \$1 of Bond Proceeds for \$2 of local funds for counties in a Tier 2 development area, as designated by the Department of Commerce.
- \$1 of Bond Proceeds for \$1 of local funds for counties in a Tier 3 development area, as designated by the Department of Commerce.

For the purposes of determining the development tier, it will be the tier designation in place for Calendar Year 2015. (Sec. 1(f)(2)(b))

Every dollar of Bond Proceeds must be matched with four dollars of local funds for Statewide Children with Disabilities and Veterans with Disabilities Grants. Each award is capped at \$500,000.

- Applies to: North Carolina Community College System, Statewide Children with Disabilities and Veterans with Disabilities Local Parks

Escalation Funds: Funds budgeted for escalation for each project must be held in reserve by OSBM to be used only for unforeseen circumstances or for true inflation increases. Unspent funds will be reported to the General Assembly for reallocation. (Sec. 4)

- Applies to: University of North Carolina, Department of Agriculture, Department of Public Safety

Reallocation: State Agencies and Universities may not reallocate Bond Proceeds for purposes other than what were authorized in the Connect NC Bond. The General Assembly is the only entity that may reallocate Bond Proceeds. (Sec. 1(f)(3)).

- Applies to: All Recipients

Funds shall only be requisitioned according to the attached bi-weekly schedule. Requested agencies should also use the attached COPS and Bonds Requisition Form (attached) when submitting their requests. If requesting agencies have a requirement to add 'in-house' information to the form, other than adding rows for additional projects, please hide those columns and/or rows when you submit to OSBM.

The process for the requisition of funds and the payment of invoices are as follows:

- Agencies shall receive invoices from vendors and certify that these invoices are due and payable.
- Monday: Agencies must submit their request for requisition of funds on the Monday of the week of the disbursements to OSBM. Please note that if the Monday falls on a state holiday, we will need requisitions by noon on Tuesday.
- Tuesday: OSBM reviews requisition requests and notifies OSC of needed funds by submitting the "Form of Requisition."
- Wednesday: The Department of State Treasurer will deposit bond funds in an OSBM budget code.
- Wednesday: OSBM will remit to OSC a Funds Request Worksheet.
- Thursday: OSC records a Journal Entry and allocates a wire transfer to agency budget codes (4XXXX).
- Thursday: OSC will approve requisitions from agencies and release funds.
- Thursday: Agencies will send electronic payments to vendors for approved invoiced expenses.

If you have budget related questions, please contact your Capital Analyst: Mark Bondo (919-807-4786) or Monica Scott (919-807-4750) in OSBM.