



MEMORANDUM

TO: Local Governmental Employees' Retirement System Board of Trustees

FROM: Patrick Kinlaw, Director of Policy, Planning, and Compliance

DATE: April 27, 2023

SUBJECT: New Local Units Applying for Participation in the Local Governmental Employees' Retirement System and their Elections to Pick Up Employee Contributions

Pursuant to N.C.G.S. § 128-23(c), this memorandum details the requests from five (5) local units that desire to join the Local Governmental Employees' Retirement System (LGERS). The following units have elected participation for general employees in LGERS with an effective date of July 1, 2023. This action requires a vote from the Board of Trustees.

Unit	Net Employer Contribution Rate upon Entrance	Number of Eligible Employees	Pick-Up Date
Ayden Housing Authority	12.85%	8	July 1, 2023
Carteret County Tourism Development Authority (TDA)	12.85%	7	July 1, 2023
Housing Authority of the City of Lumberton	12.85%	32	July 1, 2023
Kinston-Lenoir County Tourism Development Authority (TDA)	12.85%	1	July 1, 2023
Town of Sparta	12.85%	14	July 1, 2023

There are no units to be added to LGERS only with respect to law enforcement officers pursuant to N.C.G.S. § 128-23(g). (Had there been any, this action would not require a vote from the Board of Trustees.)

Retirement Systems Division (RSD) staff has confirmed that all five entities meet the basic legal and financial requirements and may therefore be approved by the Board of Trustees for participation in LGERS.

Ayden Housing Authority

The Ayden Housing Authority serves residents of the Town of Ayden (“Town”), located in Pitt County. A previous entity named Ayden Housing Authority (“Old Authority”) participated in LGERS until December 2017, at which point the Old Authority’s employees became employees of the Town and continued to participate in LGERS. Effective July 2022, the Town created a new entity known as the Ayden Housing Authority (“New Authority”), and the New Authority’s employees ceased earning service under LGERS. The New Authority has now applied to join LGERS effective July 1, 2023. The Ayden Housing Authority has 8 eligible general employees and has estimated the total annual salaries for these 8 positions to be \$411,631. The employer contribution rate would be 12.85% of compensation.

Financial Note:

Prior to 2022, the Ayden Housing Authority was presented as a component unit of the Town in the Town’s financial statements. As of June 30, 2021, the most recent such report available, the Ayden Housing Authority (as a component unit of the Town) had assets of \$6,381,440, including unrestricted cash and cash equivalents of \$1,667,817; liabilities of \$452,253; and total net position of \$6,005,478, an increase of \$131,347 over the prior fiscal year-end. The New Authority submitted to our office its standalone financial statements for the fiscal year ended June 30, 2022. As of June 30, 2022, the Authority had assets of \$6,804,043; liabilities of \$204,038; and a total net position of \$6,617,367, an increase of \$611,889 over the prior fiscal year-end. The unrestricted net position as of June 30, 2022 was \$2,157,880.

Staff Recommendation:

Based on the submitted financial data, the Ayden Housing Authority is financially fit to participate in and fulfill the obligations under Chapter 128 for participation in LGERS.

Carteret County Tourism Development Authority

The Carteret County Tourism Development Authority, also known as the Crystal Coast Tourism Development Authority (“CCTDA”), has 7 eligible general employees. The CCTDA estimates total annual salaries for these 7 positions to be \$517,483. The employer contribution rate would be 12.85% of compensation.

Financial Note:

The CCTDA is reported as a component unit of Carteret County. The CCTDA increased its net position to \$7,944,692 as of June 30, 2022, up from \$4,702,253 as of June 30, 2021. In its financial statement, the CCTDA attributed this increase primarily to a significant increase in occupancy taxes collected, and continued diligence in cost-saving measures. While a statement of cash flows is not provided, cash and investments equaled \$6,262,186 as of June 30, 2022, up \$3,425,966 from \$2,836,220 as of June 30, 2021. The increase in fund balance was \$3,232,575 during fiscal year 2022 and \$2,430,870 during fiscal year 2021.

Staff Recommendation:

Based on the submitted financial data, the Carteret County Tourism Development Authority is financially fit to participate in and fulfill the obligations under Chapter 128 for participation in LGERS.

Housing Authority of the City of Lumberton

The Housing Authority of the City of Lumberton (“Authority”) has 32 eligible general employees and has estimated the total annual salaries for these 32 positions to be \$1,497,844. The employer contribution rate would be 12.85% of compensation.

Financial Note:

The Authority is reported as a related organization to the City of Lumberton (the “City”) because of City control over membership of the Authority’s governing board. However, the Authority is not a component unit of the City since it designates its own management, approves its own budget, and maintains its own accounting system. The Authority’s financial statements for the fiscal year ended March 31, 2022 report assets of \$31,733,098, including unrestricted cash and cash equivalents of \$11,905,463; liabilities of \$745,458; and total net position of \$30,987,640, an increase of \$2,906,725 over the prior fiscal year-end. The compliance reports identified no internal control finding over financial reporting but did include several findings related to the Federal Award Program audit recommending the strengthening of procedures surrounding tenant leasing processes and tenant rent calculation processes. The Authority has responded to these findings with a corrective plan.

Staff Recommendation:

Based on the submitted financial data, the Housing Authority of the City of Lumberton is financially fit to participate in and fulfill the obligations under Chapter 128 for participation in LGERS.

Kinston-Lenoir County Tourism Development Authority

The Kinston-Lenoir County Tourism Development Authority (“KLCTDA”) has 1 eligible general employee and has estimated the annual salary for that position to be \$60,250. The employer contribution rate would be 12.85% of compensation.

Financial Note:

The KLCTDA is reported as a component unit of Lenoir County. As of June 30, 2022, the KLCTDA had increased its net position to \$286,148, up \$64,733 from \$221,415 as of June 30, 2021. While a statement of cash flows is not provided, cash and investments equaled \$233,141 as of June 30, 2022, up \$33,264 from \$199,877 as of June 30, 2021. The increase in fund balance was \$49,471 during fiscal year 2022 and \$157,331 during fiscal year 2021. In fiscal year 2022 compared to fiscal year 2021, General Fund revenues totaled \$537,418, up \$72,085; while expenditures totaled \$487,947, up \$164,683. The audit identified one stewardship, compliance or accountability concern, an over-expenditure of \$272 for insurance in fiscal year 2022. RSD staff does not believe this finding is a concern for LGERS purposes since the amount is relatively small and the KLCTDA did not have similar over-expenditures in fiscal year 2021.

Staff Recommendation:

Based on the submitted financial data, the Kinston-Lenoir County Tourism Development Authority is financially fit to participate in and fulfill the obligations under Chapter 128 for participation in LGERS.

Town of Sparta

The Town of Sparta ("Town") has 14 eligible general employees and has estimated the total annual salaries for these 14 positions to be \$659,095. The employer contribution rate would be 12.85% of compensation.

Financial Note:

For the Town's General Fund, the unrestricted cash and investments totaled \$2,862,293 as of June 30, 2022, a 23.39% increase over the prior fiscal year-end, and the total fund balance equaled \$3,262,016, a 21.83% increase over the prior fiscal year-end. The fund balance increased by \$584,422 during fiscal year 2022. The General Fund balance available as a percentage of annual expenditures was 187.11% as of June 30, 2022, and 144.26% as of June 30, 2021, compared to an average of 64% for similar units in North Carolina.

The Town also provides water and sewer services. The Department of State Treasurer's State and Local Government Finance Division (SLGFD) advises that a measurement known as the Quick Ratio should be at least 1.0x for such funds. The Town's water and sewer Quick Ratio was 6.25x for 2022 and 4.48x for 2021. SLGFD also advises that unrestricted cash in such funds should be at least 16% of the total annual expenditures plus debt service principal. The Town's comparable ratio has exceeded 74% in each of the last four years. As of June 30, 2022, working capital in this fund equaled \$1,323,392.

The auditor's compliance report found a lack of segregation of duties in the Town's handling of transactions. While noting that it is not feasible to hire more staff to address the issue, the Town has agreed with the finding, and committed to following the auditor's recommendation to separate duties as much as possible, establish alternative controls, and have the governing board be more involved in providing some of these controls.

Staff Recommendation:

Based on the submitted financial data, the Town of Sparta is financially fit to participate in and fulfill the obligations under Chapter 128 for participation in LGERS.