BUNCOMBE COUNTY, NORTH CAROLINA

Quarterly Financial Report

FOR THE QUARTER ENDING
DECEMBER 31, 2017

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BUNCOMBE COUNTY GOVERNMENT
NORTH CAROLINA

BUNCOMBE COUNTY
QUARTERLY FINANCIAL REPORT
Fiscal Year 2018
Quarter 2

February 16, 2018

Executive Summary

I am pleased to present you with Buncombe County's Quarterly Financial Report for the quarter ended December 31, 2017. This report includes General Fund budget versus actual with year-end projections, a summary of major revenue sources, current Net County Cost projections, a fund balance analysis, as well as information on debt and investments.

As of December 31, 2017, the County has collected $181.5 million in General Fund revenue, which represents nearly 60% of the amended budget. Property tax collections make up $143.8 million or 79% of the total revenue received, with 75.5% collected at the end of the second quarter. Staff projects revenue will finish the year at $298.2 million.

General Fund expenditures through December 31, 2017 totaled $147.7 million or 45% of the amended budget. Personnel and program support expenses were the largest components of expenditures in the second quarter, of which $45 million represented support for local public schools. Staff projects expenditures at the end of the year to be $302.7 million or $4.5 million over revenue. In addition to other financing sources, $250,000 of fund balance will be utilized to cover the revenue shortfall.

Fund Balance, the difference between our assets and liabilities, is projected to end the year at $77.3 million. Portions of our total fund balance are restricted for various reasons; State statute and unspent bond proceeds are two of the largest restrictions. The remainder of the fund balance is available for any purpose in the fund. We predict that available fund balance will end between or 16.8% and 18.6%.

Total outstanding debt at December 31, 2017 totaled $403.9 million of which $213.2 million, or 54%, is education related debt. The County made $12.5 million in debt service payments in the second quarter, of which $2.9 million resulted in principal reductions. In the third quarter the County will issue an additional $53.9 million in limited obligation bonds for school capital projects. Debt service for the additional bonds will begin in December 2018.

The information following this summary will give a more in depth look at the County's overall standing at the end of the second quarter, December 31, 2017.

Tim

Tim Flora
Chief Financial Officer

General Fund Budget Overview

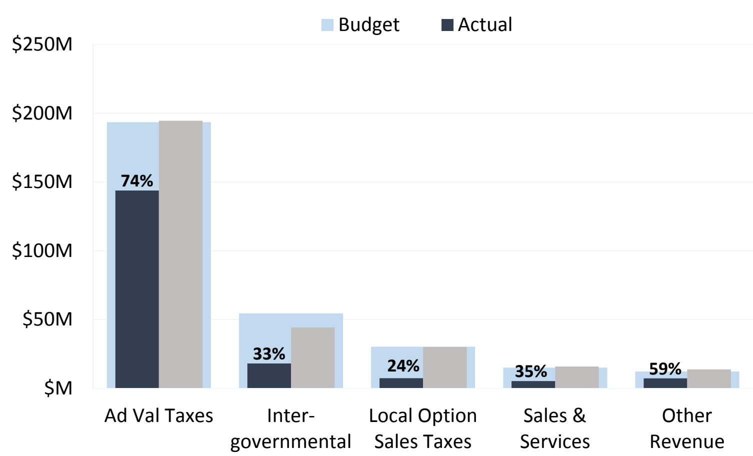
The Budget Office maintains current budget year projections on a monthly basis after the 1st quarter of the fiscal year to reflect updated annual estimated revenues and expenses. The outlooks shift to weekly beginning in the 4th quarter. This allows the department to monitor activity throughout the fiscal year and identify items that are not in line with previous budget estimates or projections. This ongoing review and analysis allows early identification of potential problems as well as potential areas of savings.

Projections help the County identify items that are not in line with prior budget estimates, identify mid-year budget adjustments, and update budget forecasts based on monthly projections.

Revenues and expenditures are forecasted through a combination of methods including historical trend information and reliance on subject matter experts. Subject matter experts include department directors and staff as well as statewide organizations such as the North Carolina Association of County Commissioners.

Q2 FY2018 Revenues

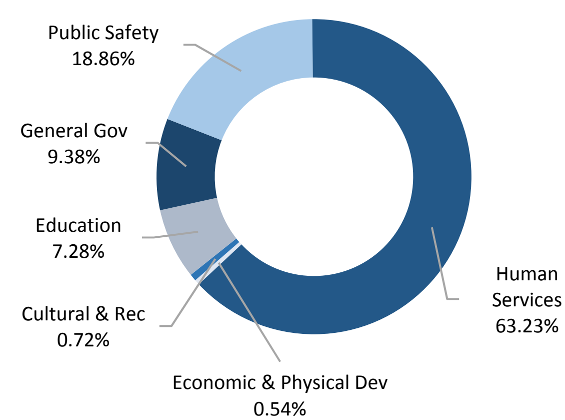
*General fund revenues budgeted, actual, and projected**



Note: Percentage lables represent actual revenues as a percent of budget

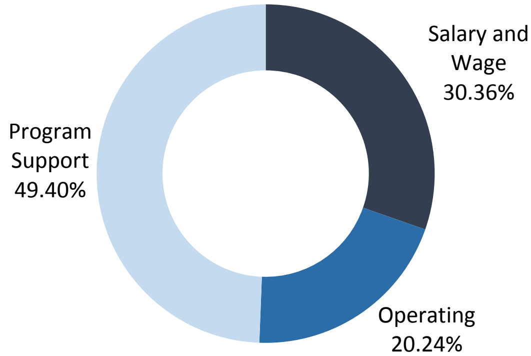
Revenues by Function

Budgeted general fund revenues for each function



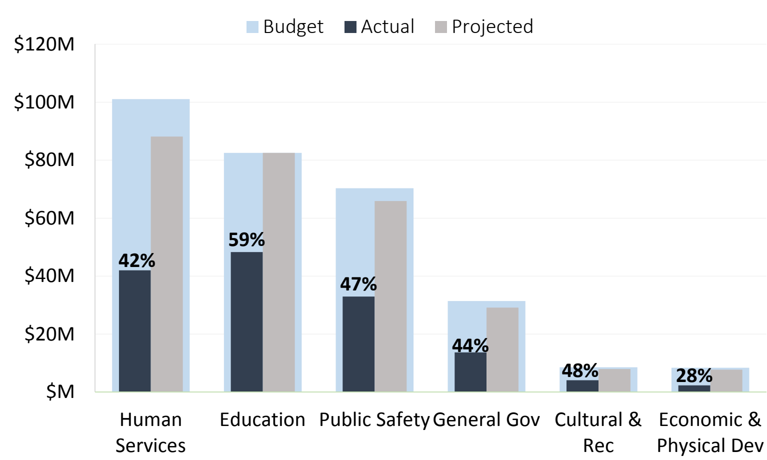
Q2 FY2018 Expenditures by Type

General fund expenditures by major expenditure categories



Q2 FY2018 Expenditures by Function

*General fund expenditures budgeted, actual, and projected**



Note: Percentage lables represent actual revenues as a percent of budget

BUNCOMBE COUNTY, NORTH CAROLINA

Statement of Year-to-Date and Projected Revenues, Expenditures, and Changes in Fund Balance
General Fund

FOR THE QUARTER ENDED DECEMBER 31, 2017

	General Fund			
	Original Budget	Amended* Budget	Actual Dec. 31, 2017	Year End Projected Actual
REVENUES				
Ad valorem taxes	$193,479,766	$ 193,479,766	$ 143,809,123	$194,550,000
Local option sales taxes	30,229,304	30,229,304	7,317,453	30,028,008
Other taxes and licenses	6,581,520	6,581,520	3,400,797	7,051,078
Unrestricted intergovernmental	700,000	700,000	-	727,370
Restricted intergovernmental	52,923,340	53,738,903	17,974,443	43,395,180
Permits and fees	3,501,655	3,501,655	2,311,067	4,364,895
Sales and services	14,921,204	14,950,907	5,219,556	15,808,886
Investment earnings	500,000	500,000	379,168	811,658
Miscellaneous	1,533,641	1,533,641	1,041,435	1,475,860
Total revenues	304,370,430	305,215,696	181,453,042	298,212,936
EXPENDITURES				
Current:				
General government	30,591,118	31,387,303	13,699,477	29,114,538
Public safety	70,212,087	70,304,661	32,947,556	65,891,779
Economic and physical development	10,057,327	8,364,797	2,331,683	7,688,851
Human services	100,726,056	101,034,210	41,978,979	88,138,680
Cultural and recreational	8,524,870	8,518,870	4,087,578	7,909,792
Intergovernmental:				
Education	82,164,166	82,477,604	48,276,737	82,477,604
Total current expenditures	302,275,624	302,087,445	143,322,009	281,221,244
Debt service:				
Principal retirement			-	12,668,021
Interest and other charges			4,409,482	8,846,471
Total debt service	24,154,266	24,154,266	4,409,482	21,514,492
Total expenditures	326,429,890	326,241,711	147,731,491	302,735,736
Revenues over (under) expenditures	(22,059,460)	(21,026,015)	33,721,552	(4,522,800)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	11,001,141	11,123,709	8,033,521	8,033,521
Transfers to other funds	(4,305,498)	(4,367,498)	(726,250)	(4,367,498)
Sales of capital assets	-	-	27,745	605,750
Appropriated fund balance	15,363,817	14,269,804	-	-
Total other financing sources (uses)	22,059,460	21,026,015	7,335,016	4,271,773
Net changes in fund balance	$ -	$ -	41,056,567	(251,027)
Fund balance, beginning of year				77,584,700
Fund balance, end of year				$ 77,333,673

**Note: For supplemental information regarding amendments to original budget refer to Appendix A*

General Fund Major Revenue Sources

Property Tax

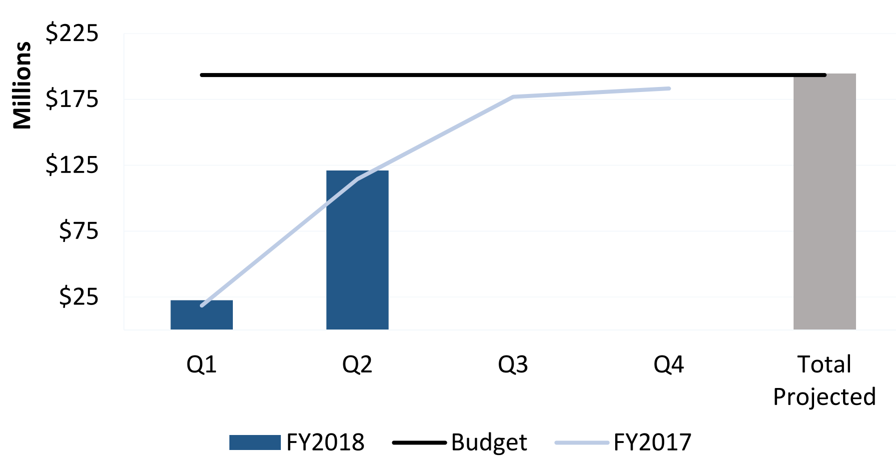
Property taxes are the single largest source of revenue for counties in North Carolina, accounting for 58.5% of Buncombe County's General Fund budget estimate for FY2018. Both real property and personal property are subject to taxation, unless specifically exempted or excluded from taxation. Property values are assessed January 1st of each year, due September 1st, and are payable without interest at any time through the following January 5th. This results in the largest portion of property taxes being received in December and early January of the fiscal year.

FY2018 Estimated Property Tax Revenue			
Assessed Valuation		$	36,258,646,959
Tax Rate *per $100 of Assessed Valuation*	x	$	0.539
Tax Levy		$	195,434,107
Estimated Collection Rate	x		99.00%
Estimated Revenue		$	193,479,766
Value of 1 Cent		**$**	**3,589,606**

At the end of the second quarter $143.8 million, or 74.3%, of estimated property tax revenues were received. The Tax Collector is anticipating a higher collection rate than previously estimated, resulting in a projected revenue amount of $194.5 million for FY2018. This is $1 million more than the budget amount.

Property Tax Revenues

Property tax revenues are projected to end $1 million over budget



Sales Tax

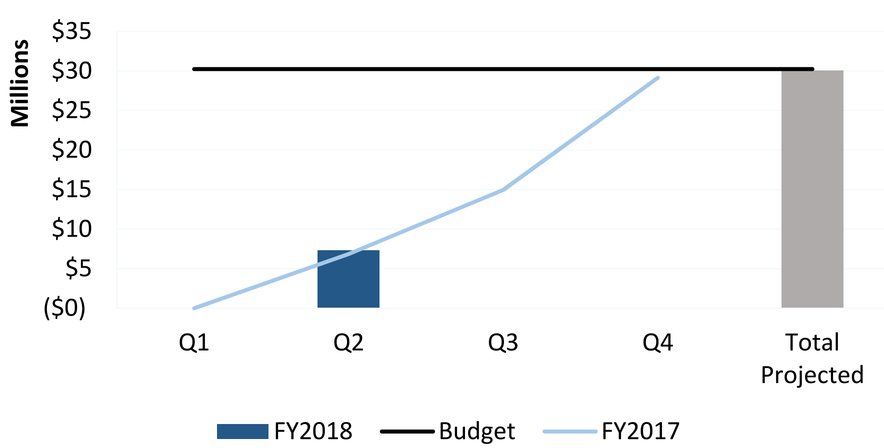
The next major source of revenue for Buncombe County is sales tax. The County levies four local-option retail sales and use taxes that, when combined with the state 4.75% sales and use tax, results in a total tax rate of 7%. Only a portion of the 2.25% levied by the County impacts the General Fund:

Amount	State Legislation G.S. 105 -	Local Legislation/ Commission Action	Distribution and Use Restrictions
1%	Article 39	Senate Bill 888 Ratified June 21, 2016	50% School Capital Commission Fund Remaining proceeds distributed to other taxing districts and County General Fund.
0.50%	Article 40		30% Public Schools ADM Capital Projects Fund Remaining proceeds distributed to other taxing districts and County General Fund.
0.50%	Article 42		60% Public Schools ADM Capital Projects Fund Remaining proceeds distributed to other taxing districts and County General Fund.
0.25%	Article 46	Resolution #17-06-03 Adopted June 6, 2017	100% Article 46 Capital Projects Fund (currently designated for AB-Tech capital and operating needs)

Sales tax proceeds are collected by retailers and remitted to the NC Department of Revenue (DOR). The DOR allocates a portion of the revenues to counties on either a point-of-origin or per capita basis, based on statutes governing each article of sales tax. The remittance and distribution schedule results in a three month lag in sales tax receipts. At the end of the second quarter $7.3 million, or 24.2%, of estimated sales tax revenues were received. Second quarter receipts were 3.1% lower than revenues received during the same time last fiscal year. Staff are currently projecting total sales tax revenues to come in slightly under the budget amount of $30.2 million.

Sales Tax Revenues

Current projections estimate sales tax to come in slightly under budget



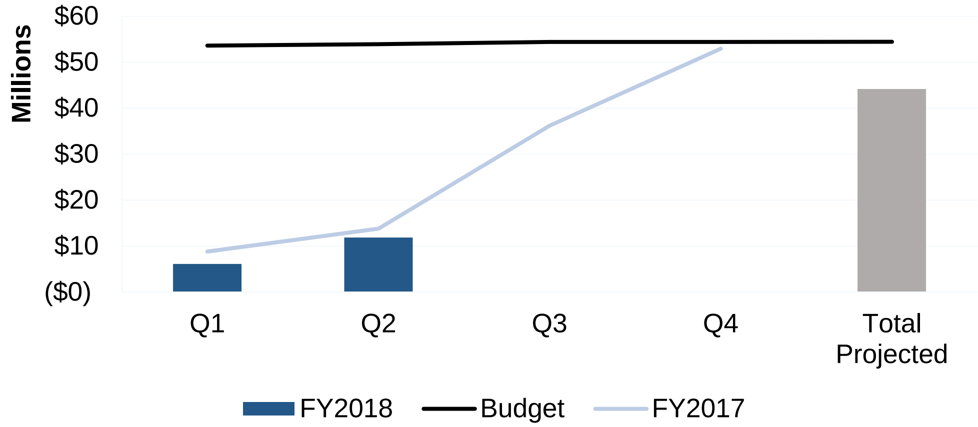
Intergovernmental

Intergovernmental revenues include grants and programmatic payments from federal, state, and other local government units. These revenues account for 16.21% of General Fund revenues in the FY2018 adopted budget. The majority of these revenues are generated from the County's Health and Human Services function, which is comprised of Public Health, Social Services, as well as other Youth and Aging Services. These services generate approximately 90.8% of all intergovernmental revenues. These revenues are often received on a reimbursement basis.

At the end of the second quarter $11.8 million, or 22%, of estimated intergovernmental revenues were received. Staff is currently projecting total intergovernmental revenues to come in at approximately 81% of the budget amount. This projection accounts for programmatic revenues that will no longer flow through the County, but instead will be paid directly from the federal or state agency to the community provider. A corresponding decrease is also reflected on the programmatic expenditure side, resulting in no impact to net county cost.

Intergovernmental Revenues

Intergovernmental revenues are under budget due to programmatic changes

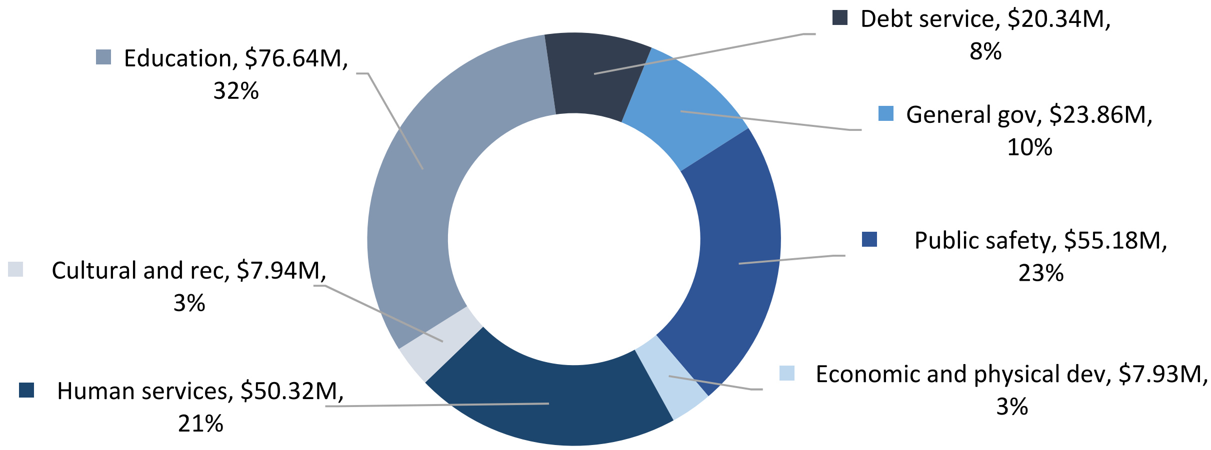


Net County Cost

The Net County Cost breakdown of General Fund expenditures provides information on the functions that are supported by general purposes revenues such as property tax and sales tax. This breakdown nets out other revenues such as state and federal allocations and program generated revenues, creating a more precise way to view direct cost impact to property tax payers, and shifting the ranking of functions by expenditures in notable ways. For example, the total expenditures budget for Human Services is higher than the budgeted amount for Education, but as shown below this relationship is reversed after intergovernmental and other Human Services specific revenues are considered.

Budgeted Net County Cost

Net cost after function-specific revenues are subtracted from expenditures



Year-to-date and estimated net county cost details by function are provided below.*

Statement of Year-to-Date and Projected Net County Expenditures by Function
General Fund
FOR THE QUARTER ENDED DECEMBER 31, 2017

	Original Budget	Amended Budget	Actual Dec. 31, 2017	Year End Projected Actual
NET EXPENDITURES BY FUNCTION				
General government	23,065,772	23,861,957	9,231,749	20,704,621
Public safety	55,086,136	55,178,710	27,584,986	49,265,896
Economic and physical development	9,626,593	7,934,063	2,061,624	7,154,069
Human services	50,830,440	50,323,031	25,143,984	48,149,871
Cultural and recreational	7,949,297	7,943,297	3,779,146	7,321,117
Education	76,329,166	76,642,604	42,476,737	76,657,966
Debt service	20,373,116	20,343,413	3,433,693	19,565,935
Total expenditures (net)	243,260,520	242,227,075	113,711,919	228,819,475
Revenues over (under) expenditures	(14,427,675)	(13,394,230)	39,696,022	1,393,251

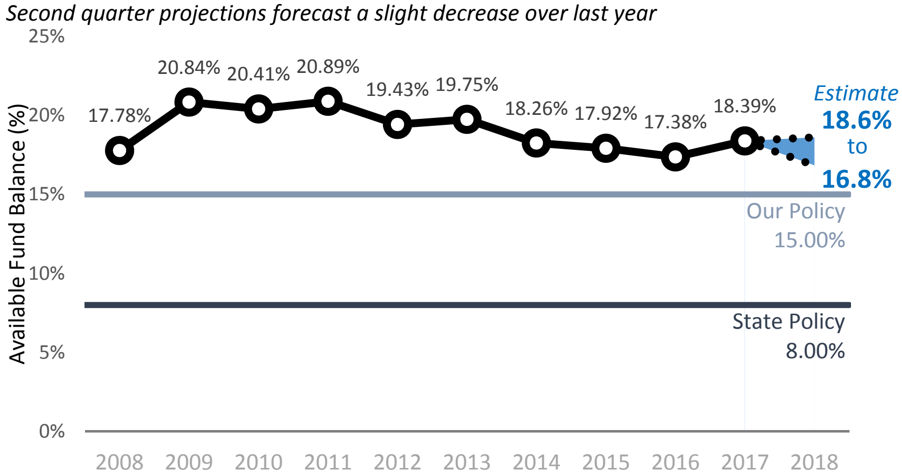
For a comprehensive net county cost breakdown including revenue and expenditure details refer to Appendix B.

Fund Balance Analysis

As stated in the Executive Summary, fund balance is the difference between our assets and liabilities. Any increase in fund balance is created from excess revenues over expenditures. North Carolina's Local Government Commission requires an available fund balance of at least 8% of expenditures, representing approximately one month's average expenditures. However, most cities and counties need to maintain a higher percentage to manage annual cash flows and quickly respond to emergencies or other unforeseen expenditures. Buncombe County's policy requires an available fund balance of 15% which allows the County to plan for contingencies and maintain good standing with rating agencies.

Available Fund Balance (as a % of expenditures)

Second quarter projections forecast a slight decrease over last year

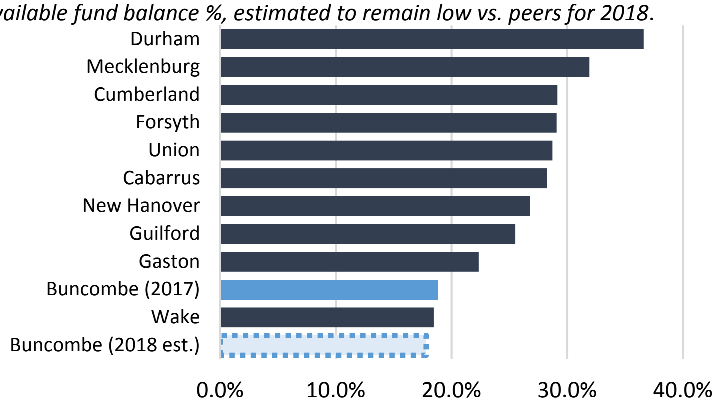


Projections for the second quarter estimate that Buncombe County will end FY 2018 with an available fund balance percentage between 16.8% and 18.6%.

The fiscal year 2018 General Fund budget includes an appropriated fund balance of $14,269,804, which is about 4.3% of total appropriations. Our current projections indicate that we will end this fiscal year using about $250,000 of this appropriation, resulting in a slight decrease to fund balance.

Comparison to Peer NC Counties (Population over 200,000)

Buncombe ends 2017 ranked next to last vs. peers for general fund available fund balance %, estimated to remain low vs. peers for 2018.



Source: NC LGC Annual Financial Information Report, 2017

Available Fund Balance (AFB) for Largest NC Counties

County	AFB (%)	AFB ($)	Population	($) Per Capita
Durham	36.6%	$159.27M	301,520	$528.24
Mecklenburg	31.9%	$387.54M	1,053,545	$367.85
Cumberland	29.2%	$94.13M	332,553	$283.06
Forsyth	29.1%	$117.13M	369,144	$317.31
Union	28.7%	$80.36M	223,915	$358.89
Cabarrus	28.2%	$69.08M	200,663	$344.26
New Hanover	26.8%	$76.61M	223,608	$342.59
Guilford	25.5%	$144.32M	520,230	$277.41
Gaston	22.4%	$55.70M	215,489	$258.46
Buncombe (2017)	**18.8%**	**$56.33M**	**258,406**	**$217.99**
Wake	18.5%	$221.23M	1,026,748	$215.47
Buncombe (2018 est.)	17.7%	$54.45M	260,990	$208.62

Source: NC LGC Annual Financial Information Report, 2017

A comparison of all the counties in North Carolina with populations over 200,000 reveals that Buncombe County ended fiscal year 2017 with next to the lowest General Fund available fund balance percentage and per capita balance out of the group. Buncombe will remain at the bottom of this group at the end of 2018, based on current end-of-year projections.

Long-Term Debt Overview

As of December 31, 2017, Buncombe County's outstanding debt was $403.9 million the following long-term debt schedule presents the outstanding balances as of December 31, 2017. During the 1st and 2nd quarter of fiscal year 2018, the County made $12.5 million in debt service payments, $2.9 million of which resulted in principal reductions. In the 3rd and 4th quarter of FY18, the County will make principal and interest payments totaling $36.06 million, $26.4 of which will result in principal reductions as shown in the schedule below.

Long-Term Debt Schedule

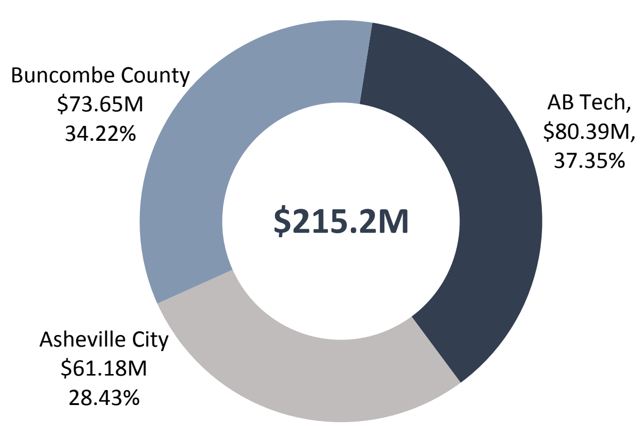
Second quarter total debt outstanding and remaining FY18 budget impact

Debt Issuance	Original Loan Amount	Current Balance 12-31-17	Principal Payment this budget Cycle	Maturity Date
LOBS 2010A	$ 31,500,000	$ 12,780,000	$ 2,555,000	06/01/2022
GO 2009B	5,685,000	2,297,000	-	09/15/2022
LOBS 2010C	3,720,000	2,006,292	260,000	06/01/2025
GO 2012	32,500,000	19,200,000	-	12/01/2025
COPS 2009A	12,065,000	5,770,000	485,000	06/01/2029
LOBS 2010B	20,420,000	20,420,000	-	06/01/2030
ARRA 2012	1,500,000	1,050,000	75,000	05/01/2031
LOBS 2012A	75,365,000	56,575,000	4,835,000	06/01/2032
LOBS 2014A	151,590,000	138,360,000	9,470,000	06/01/2034
LOBS 2014B	28,725,000	25,390,000	1,135,000	06/01/2034
CTS Loan	1,929,797	1,828,229	101,568	05/01/2035
LOBS 2015	126,635,000	118,240,000	7,510,000	06/01/2035
Total	**$ 491,634,797**	**$ 403,916,521**	**$ 26,426,568**	

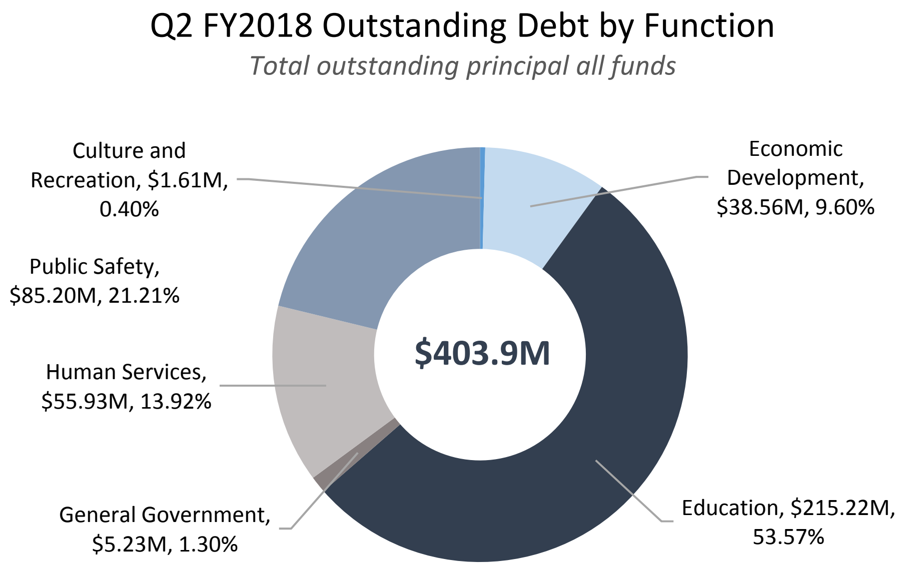
A considerable amount of the County's long-term debt have dedicated revenue sources. Article 39 local option sales tax is designated to finance capital needs for Buncombe County Schools and Asheville City Schools. Article 46 local option sales tax is designated to finance AB Tech community college capital needs. As of December 31, 2017, outstanding debt related to each of these school systems totaled $215.2, of which $61.2 million is for Asheville City Schools, $73.6 million is for Buncombe County Schools, and $80.4 is for AB Tech Community College.

Q2 FY2018 Outstanding Education Debt

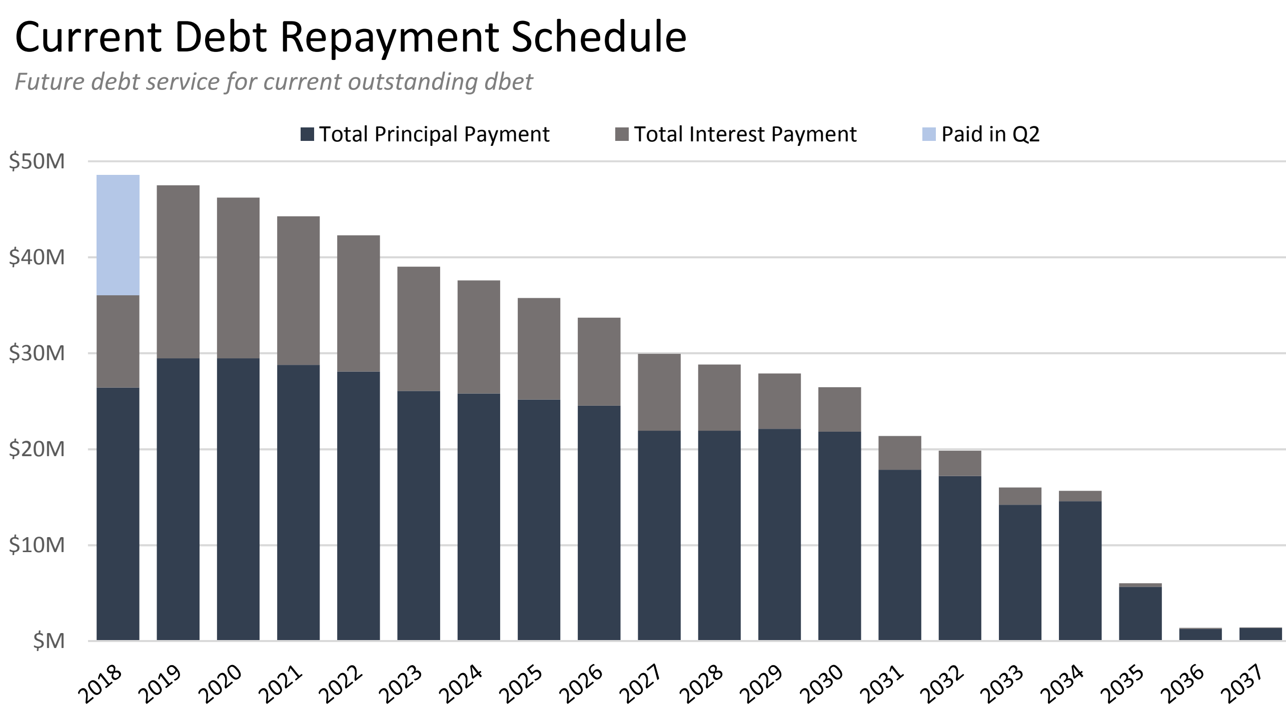
Outstanding principal by school system



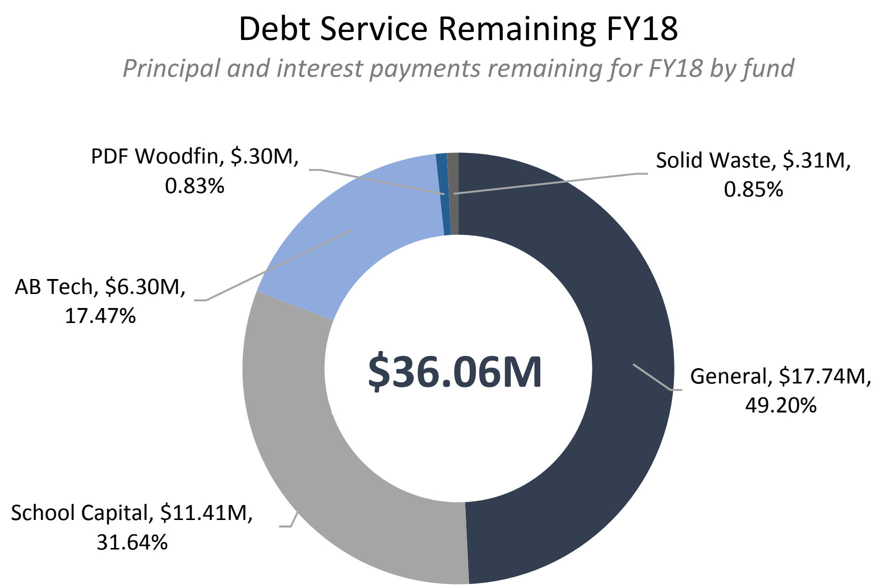
The graphic below shows the breakdown of outstanding debt by function. Of the $403.9 million of total outstanding debt, $183.8 million is to be paid from the general fund. Major projects include the Human Services Complex, Judicial Complex, Life Safety Tower, GE Economic Development Incentive, and major renovations to various County buildings.



Debt service payments consist of principal and interest payments. The chart below illustrates the repayment schedule for the current outstanding debt. The current debt policy requires 55% of debt to be paid off within ten years. As of December 31, 2017, 66% of outstanding debt will be paid off in 10 years.

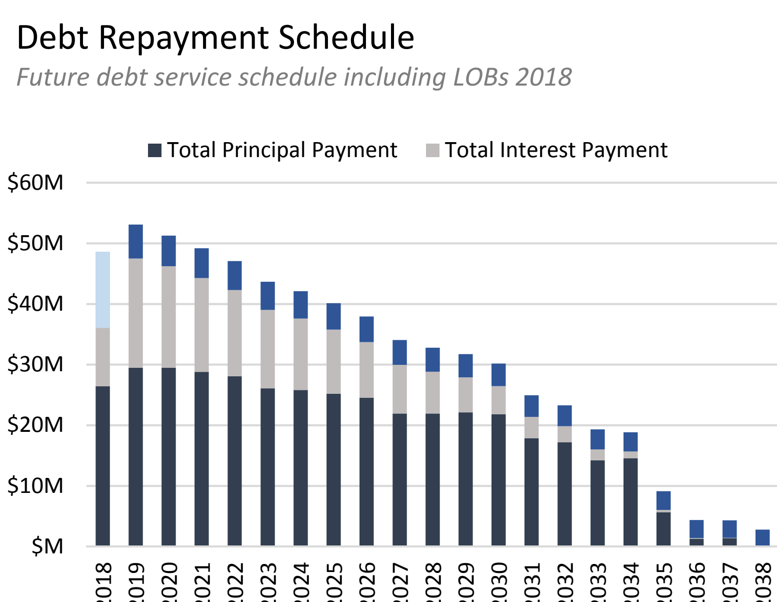


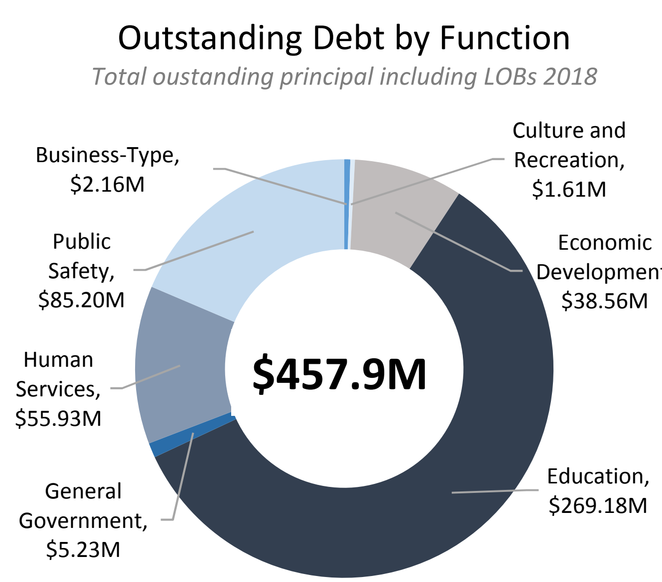
In the fourth quarter of FY2018 the County will make its largest debt service payment for the year, consisting of $26.5 million in principal reduction and $9.6 million in interest. Total debt service remaining for FY18 in each fund for the fiscal year is depicted on the next page.



As noted in the Executive Summary, the County is in the process of issuing bonds for Asheville City Schools and Buncombe County Schools. Since the fall of 2016 the Board has approved nearly $75 million for major capital projects for the two school systems, including extensive renovations to Asheville High School, Montford North Star Academy, Ira B. Jones, Community High, as well as various maintenance projects for both school systems. The majority of these projects have begun and the County has been cash flowing them with available fund balance in the School Capital Fund in order to postpone issuing debt. A full list of projects to be financed can be found in Appendix C.

The debt service for all new debt financing will be funded by Article 39 sales tax revenue.

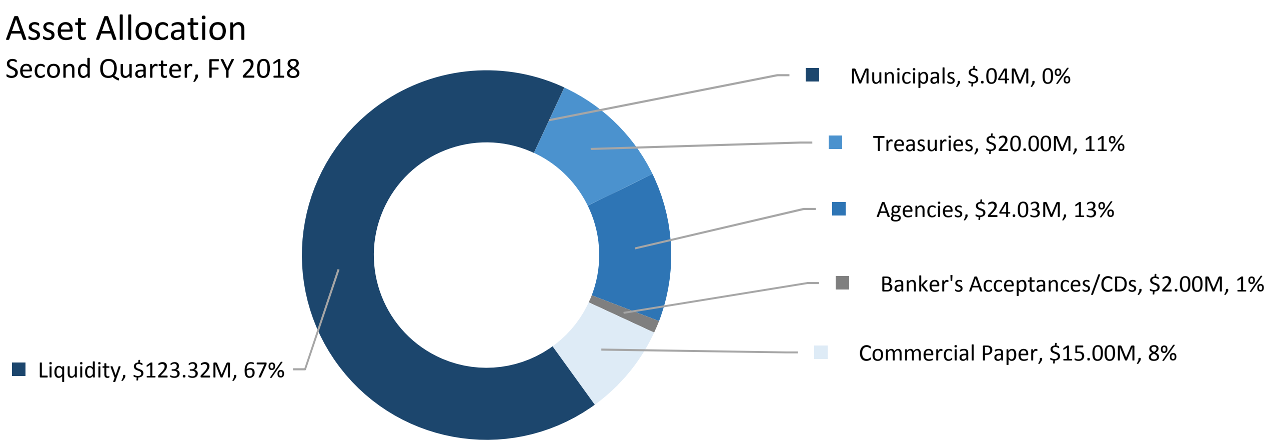




Investments

The Board-adopted Investment Policy identifies safety of principal as the foremost objective of the investment program. Steps are taken to ensure the safety of principal including limiting investments to the safest types of securities and diversifying the investment portfolio so potential losses will be minimized.

The liquidity balance of current assets total $123 million. This balance is higher than the target liquidity balance due to the high volume of property tax payments received in December. These funds will begin to be invested during the following quarter. The diversification of the portfolio at December 31, 2017 is shown below.



Asset Class	Type	Amount	Current Allocation	Prior Allocation	Quarter Change	Current Target
Liquidity	Wells Fargo (Main Cash)	$ 109,069,703	59.15%	16.12%	43.02%	5.42%
	NCCMT Term	6,341,570	3.44%	16.54%	-13.10%	5.42%
	NCCMT Government	7,909,774	4.29%	4.55%	-0.27%	5.42%
Agencies	FHLM	5,000,000	2.71%	13.85%	-11.14%	12.18%
	FHLB	10,000,000	5.42%	8.15%	-2.72%	12.19%
	FFCB	0	0.00%	2.44%	-2.44%	12.19%
	FNMA	9,030,000	4.90%	7.36%	-2.46%	12.19%
Treasuries	TR	20,000,000	10.85%	21.18%	-10.33%	15.00%
Municipals	MUNI	35,000	0.02%	0.03%	-0.01%	5.00%
Commercial Paper	CP	15,000,000	8.14%	8.15%	-0.01%	10.00%
Banker's Acceptances/CDs	CD	2,000,000	1.08%	1.63%	-0.54%	5.00%
Total		**$ 184,386,047**	**100.00%**	**100.00%**	**0.00%**	**100.00%**

The County purchases investments throughout the year based on detailed analysis of current liquidity as well as future cash flow needs. For example a $13 million agency and $10 million treasury security were purchased with maturity dates designed to cover June 2018 debt service payments.

This quarter, the County purchased two securities with a par value of $10 million and an average yield of 1.35%, while $26 million of securities matured. The County's weighted average yield decreased from 0.95% to 0.77%, while the average maturity (excluding liquidity) decreased from 128 days to 93 days. The tables below show the investments and earnings since the County adopted a new investment approach.

Purchases

Quarter Ending	Number of Purchases	Cost	Par Value	Avg. Yield	Avg. Maturity
12/31/2015	6	$ 32,360,160	$ 32,500,000	0.73%	296
3/31/2016	1	5,000,000	5,000,000	0.50%	659
6/30/2016	5	33,134,387	33,000,000	0.48%	154
9/30/2016	4	18,935,230	19,000,000	0.75%	163
12/31/2016	8	51,496,048	51,321,000	0.60%	163
3/31/2017	10	73,071,593	73,000,000	0.83%	221
6/30/2017	1	9,007,877	9,030,000	1.19%	268
9/30/2017	4	19,939,243	20,035,000	1.27%	214
12/31/2017	2	9,921,972	10,000,000	1.35%	138

The table below shows the activity related to earnings on the portfolio. Total earnings have shown an upward trend since adoption of new investment strategies in FY 2016.

Earnings on Security Holdings

Quarter Ending	Coupon Accruals	Prem/Disc Accruals	Gain(Loss) on Sale	Total Earnings	Ending Market Value
12/31/2015	$ 42,600	$ 38,990	0	$ 81,590	71,470,133
3/31/2016	49,447	59,325	0	108,772	66,006,504
6/30/2016	48,089	45,699	0	93,788	68,171,823
9/30/2016	134,299	-38,271	0	96,028	67,100,686
12/31/2016	149,042	-41,327	0	107,715	96,496,868
3/31/2017	299,100	-63,705	0	235,395	134,451,825
6/30/2017	312,336	-89,587	0	222,749	90,845,399
9/30/2017	179,370	7,733	0	187,104	77,053,769
12/31/2017	141,978	47,903	0	189,881	61,035,314

In continuing to carry out the objectives of the investment policy, investments are made with judgment and care considering the probable safety of their capital as well as the probable income to be derived.

Appendix A

General Fund Budget Amendments

Quarter Ending December 31, 2017

Adopted General Fund Budget:	**7/1/2017**	**$ 330,735,388**
Amendments:		
FY18 JCPC Funding For Teen Court, Earn & Learn, and Home Based Services and Adoption Promotion Program Funds Carry-Forward (Fund Balance)	8/1/2017	545,931
Scholarship Fund (Fund Balance)	8/15/2017	5,000
To carry forward Buncombe County Soil & Water Conservation District and Coop Extension restricted Funds. (Fund Balance)	8/15/2017	26,202
County Restructuring (Existing Budget)	9/19/2017	-
Foster Care Board Payments for Foster Youth ages 18-21	9/19/2017	347,045
Association of Food & Drug Officials Grants	9/19/2017	3,775
Adoption Promotion Program (HHS)	9/19/2017	63,600
Healthy Communities Funding (HHS)	9/19/2017	39,984
Adult Day Care Services (HHS)	9/19/2017	4,004
Prescription Drug Overdose Funding (HHS)	9/19/2017	5,000
Early Learning Partnership (Fund Balance)	10/3/2017	63,438
Reallocation of Economic Development Incentive Funds to Small Business Development and Pre-K (Fund Balance Reduction)	10/17/2017	(1,474,732)
Viral Hepatitis Prevention (HHS)	11/7/2017	40,000
Jail Correction Plan (Transfer From Capital Projects Fund)	12/5/2017	47,568
Human Resources Pay Classification Study	12/5/2017	75,000
Security Officer in Sheriff's Department (Fund Balance)	12/5/2017	82,006
County Match for Sustainability Grant (Existing Budget)	12/5/2017	-
Amended General Fund Budget	1/31/2018	$ 330,609,209

Appendix B

Budgeted and Projected Net County Cost by Department

Quarter Ending December 31, 2017

	FY2018 Amended Budget			FY2018 Projected Actual		
FUNCTION Department	**Expenditures**	**Revenues**	**Net County Cost/ (Contribution)**	**Expenditures**	**Revenues**	**Net County Cost/ (Contribution)**
GENERAL GOVERNMENT						
Governing Body	$ 1,149,116	$ 47,520	$ 1,101,596	1,125,845	$ 42,993	$ 1,082,853
County Manager	1,092,614	-	1,092,614	915,789	-	915,789
Sustainability Office	497,178	-	497,178	500,126	-	500,126
Human Resources	1,381,322	23,000	1,358,322	1,167,896	23,000	1,144,896
Finance	2,402,700	-	2,402,700	2,203,658	-	2,203,658
Tax Assessment	2,777,443	-	2,777,443	2,390,873	-	2,390,873
Tax Collections	2,146,095	972,700	1,173,395	1,905,048	1,025,586	879,462
Elections	2,176,128	342,500	1,833,628	2,057,397	342,000	1,715,397
Register of Deeds	3,906,134	5,898,905	(1,992,771)	4,038,822	6,638,027	(2,599,204)
Budget	940,168	172,000	768,168	825,724	269,590	556,134
Information Technology	11,249,756	68,721	11,181,035	10,710,547	68,721	10,641,826
Performance Management	1,099,886	-	1,099,886	985,855	-	985,855
General Government OPEB	568,763	-	568,763	286,956	-	286,956
TOTAL GENERAL GOVERNMENT	**31,387,303**	**7,525,346**	**23,861,957**	**29,114,538**	**8,409,916**	**20,704,621**
PUBLIC SAFETY						
Sheriff's Office	38,112,343	3,933,342	34,179,001	36,569,324	4,979,634	31,589,690
Justice Resource Support	802,428	-	802,428	769,004	-	769,004
Pre-Trial Release	1,117,356	-	1,117,356	1,060,229	-	1,060,229
CJIS	1,530,218	763,698	766,520	1,255,131	637,764	617,367
Emergency Medical Services	12,358,254	6,555,044	5,803,210	11,982,597	6,527,309	5,455,288
Public Safety Training Center	1,312,053	-	1,312,053	668,974	-	668,974
General Services	8,778,348	825,500	7,952,848	7,545,176	807,937	6,737,239
Animal Services	1,291,792	-	1,291,792	1,214,458	-	1,214,458
CCBI	1,589,315	940,367	648,948	1,512,557	919,225	593,332
Juvenile Detention Service	175,000	-	175,000	86,701	-	86,701
Medical Examiner	271,440	-	271,440	271,440	-	271,440
Permits & Inspections	2,269,785	2,108,000	161,785	2,210,349	2,754,014	(543,665)
Other Public Safety	68,296	-	68,296	35,496	-	35,496
Public Safety OPEB	628,033	-	628,033	710,344	-	710,344
TOTAL PUBLIC SAFETY	**70,304,661**	**15,125,951**	**89,357,711**	**65,891,779**	**16,625,883**	**80,855,586**
HUMAN SERVICES						
Social Services	80,091,717	45,306,654	34,785,063	68,111,459	34,571,308	33,540,151
Public Health	16,614,164	5,092,370	11,521,794	16,127,108	5,105,329	11,021,780
Veterans Services	500,393	-	500,393	449,718	-	449,718
Family Justice Center	172,421	-	172,421	161,467	18	161,448
Behavioral Health	1,051,000	-	1,051,000	1,051,000	-	1,051,000
Aging Services	570,766	-	570,766	570,766	-	570,766
Youth Services	312,155	312,155	-	312,155	312,155	-
Valley Child Care	281,508	-	281,508	281,508	-	281,508
Community Funding	241,400	-	241,400	241,400	-	241,400
Human Services OPEB	874,543	-	874,543	832,099	-	832,099
Human Services Contingency	324,143	-	324,143	-	-	-
TOTAL HUMAN SERVICES	**101,034,210**	**50,711,179**	**50,323,031**	**88,138,680**	**39,988,810**	**48,149,871**
ECONOMIC & PHYSICAL DEVELOPMENT						
Planning	3,356,431	371,700	2,984,731	2,904,859	494,743	2,410,116
Economic Development	3,596,853	-	3,596,853	3,596,853	-	3,596,853
Soil Conservation	470,628	54,634	415,994	497,833	36,330	461,503
Cooperative Extension	473,023	4,400	468,623	366,055	3,709	362,346
Community Funding	271,000	-	271,000	271,000	-	271,000
Economic & Physical Development OPEB	196,862	-	196,862	52,251	-	52,251
TOTAL ECONOMIC & PHYSICAL DEVELOPMENT	**8,364,797**	**430,734**	**7,934,063**	**7,688,851**	**534,782**	**7,154,069**

Appendix B

Budgeted and Projected Net County Cost by Department

Quarter Ending December 31, 2017

	FY2018 Amended Budget			FY2018 Projected Actual		
FUNCTION Department	**Expenditures**	**Revenues**	**Net County Cost/ (Contribution)**	**Expenditures**	**Revenues**	**Net County Cost/ (Contribution)**
CULTURE & RECREATION						
Library	5,619,002	444,293	5,174,709	5,083,619	457,201	4,626,419
Parks, Greenways, & Recreation	2,101,701	131,280	1,970,421	2,007,331	131,474	1,875,857
Community Funding	752,075	-	752,075	752,075	-	752,075
Culture & Recreation OPEB	46,092	-	46,092	66,766	-	66,766
TOTAL CULTURE & RECREATION	**8,518,870**	**575,573**	**7,943,297**	**7,909,792**	**588,675**	**7,321,117**
EDUCATION						
Buncombe County Schools & Asheville City Schools Current Expense	74,207,534	35,000	74,172,534	74,207,534	19,638	74,187,896
Pre-K	470,070	-	470,070	470,070	-	470,070
A. B. Technical Community College	7,800,000	5,800,000	2,000,000	7,800,000	5,800,000	2,000,000
TOTAL EDUCATION	**82,477,604**	**5,835,000**	**76,642,604**	**82,477,604**	**5,819,638**	**76,657,966**
DEBT SERVICE	**24,154,266**	**3,810,853**	**20,343,413**	**21,514,492**	**1,948,557**	**19,565,935**
TRANSFERS TO OTHER FUNDS						
Eagle Market Street Loan	2,000,000		2,000,000	2,000,000		2,000,000
Mountain Mobility	1,641,248		1,641,248	1,641,248		1,641,248
Housing Trust	299,250		299,250	299,250		299,250
Orchard Park	100,000		100,000	100,000		100,000
Vehicle Replacement	100,000		100,000	100,000		100,000
Vehicle Purchase - Additional Sheriff Position	37,000		37,000	37,000		37,000
HOME Program	75,000		75,000	75,000		75,000
Pool Resurfacing	55,000		55,000	55,000		55,000
Grant Matching Funds	60,000		60,000	60,000		60,000
TOTAL TRANSFERS TO OTHER FUNDS	**4,367,498**	**-**	**4,367,498**	**4,367,498**	**-**	**4,367,498**
GENERAL REVENUES						
Ad Valorem Tax		193,479,766	(193,479,766)		194,400,000	(194,400,000)
Sales Tax		30,229,304	(30,229,304)		30,028,008	(30,028,008)
Fund Balance Appropriation		14,269,804	(14,269,804)		-	-
Interfund Transfers		3,371,924	(3,371,924)		2,037,471	(2,037,471)
Video Programming Services Tax		1,550,000	(1,550,000)		1,480,049	(1,480,049)
Rental Car and Heavy Equipment Receipts		675,000	(675,000)		697,550	(697,550)
Indirect Costs		652,065	(652,065)		652,065	(652,065)
Wine and Beer Tax		625,000	(625,000)		644,053	(644,053)
ABC Bottle Tax		544,000	(544,000)		812,889	(812,889)
Investment Earnings		500,000	(500,000)		811,658	(811,658)
Occupancy Tax Collection Fee		337,710	(337,710)		367,710	(367,710)
Auction Proceeds		120,000	(120,000)		80,000	(80,000)
Rental Income		95,000	(95,000)		(35,000)	35,000
Payments in Lieu of Taxes		75,000	(75,000)		83,317	(83,317)
BOA Purchase Card Rebate		45,000	(45,000)		37,899	(37,899)
Civil License Revocation		25,000	(25,000)		25,543	(25,543)
Sale of Land/Buildings		-	-		605,750	(605,750)
Take Home Vehicle Charges		-	-		54,483	(54,483)
Prior Year Ad Valorem Tax & Interest					151,706	(151,706)
Other/Miscellaneous					794	(794)
TOTAL GENERAL REVENUES		**246,594,573**	**(246,594,573)**		**232,935,946**	**(232,935,946)**
TOTAL GENERAL FUND	**$ 330,609,209**	**$ 330,609,209**	$ -	**$ 307,103,234**	**$ 306,852,208**	**$ 251,027**

Appendix C
Approved SCFC Projects

School System	Project Name	Budget
Asheville City Schools	ACS AHS Roof & Renovations	25,266,250
	ACS Montford School Critical Priority	1,634,000
	ACS Montford School 2018 Funding Approval	3,714,000
	ACS Pre-School Paving/New road	240,000
	ACS 2018 LED Project County Match	97,196
	ACS Ira B. Jones ES Roof Decking	1,029,160
	ACS Ira B Jones HVAC	1,115,840
	ACS Montford School 2019 Funding Approval	650,000
	ACS 2019 LED Project County Match	97,196
Asheville City Schools Total		$33,843,642
Buncombe County Schools	BCS Community High School	12,300,000
	BCS Valley Springs MS: Roofing	1,018,000
	BCS Avery's Creek ES: Cafeteria & Canopy	1,000,000
	BCS WD Williams ES: Roofing	780,000
	BCS C.D. Owens HS: Track Replacement	725,000
	BCS AC Reynolds HS: Re-roofing	588,275
	BCS Owen High School: ADA Compliance	580,000
	BCS Admin. Services Bld: Main Switchgear	210,000
	BCS CA Erwin HS: Repaving	200,000
	BCS Avery's Creek ES: Chiller	160,000
	Cane Creek Middle Metal Retrofit	1,800,000
	Drives & Canopy Reno per Planning Study	990,000
	BCS 2018 LED Project County Match	828,391
	Admin Svcs Building Roof & Drainage & Crickets to Drains	748,000
	Enka Middle Metal Retrofit Roof	730,000
	N Buncombe High Turf & Lighting Upfit	675,000
	Enka High Turf & Lighting Upfit	675,000
	BCS Reynolds Lab renovations per ADA/OCR Report	645,000
	Metal Roof Over Admin & Media	460,000
	Admin Svcs Building Boiler Replacement	260,000
	Weaverville & Black Mtn ES Fire Alarm Systems	235,000
	Johnston ES Energy Management System	210,000
	Enka HS Gym Bleacher Replacement	190,000
	Enka Middle Renovations	150,000
	Candler ES Enclosed Walkway	145,000
	Emma Elementary Fire Alarm System	140,000
	Black Mtn Primary Enclosed Walkway	130,000
	Reynolds HS Re-Roof Areas H & I	425,000
To be financed is future debt issuance:	BCS 6 HS & Community HS Greenhouse ADA/OCR Report projects	910,000
	North Buncombe High: Re-Paving	225,000
	Enka High: Re-Paving	150,000
	Haw Creek Elementary: Re-Paving	125,000
	Weaverville Primary: Enclose walkway from Main Bldg to K classrooms	120,000
	A.C. Reynolds High: Enclose walkway from Main Bldg to Gym	111,725
	Main Building & Gym Connector/Safety Projects	2,500,000
	BCS Avery's Creek ES Stage	2,300,000
	BCS 2019 LED Project County Match	828,391
	BCS TCR Track & Field (Supplement)	750,000
	BCS Roberson HS Track & Field Replacement	650,000
	Re-Roof Projects	573,000
	Haw Creek ES Re-Roof	500,000
	BCS Cooler Freezer Replacement - Central Office	475,000
	Leicester ES Re-Roof	450,000
	Owen HS Campus Repaving	400,000
	Erwin HS Campus Repaving	300,000
	N Buncombe HS Chiller Replacement	260,000
	Weaverville Primary Re-Roof Areas I, J, L, M	254,000
	Enka HS Window & Door Replacements	225,000
	N Buncombe HS Re-Roof	200,000
	Black Mtn Primary Fire Alarm System	140,000
	Black Mtn Primary Re-Roof Area P	108,000
Buncombe County Schools Total		$39,552,782
Grand Total		**$73,396,424**

Referenced Financial Policies

Fund Balance Policy

Debt Policy

Investment Policy

Buncombe County
General Fund Balance Policy

Original Effective Date: 06-18-96
Dates of Revision: 08-07-12

Purpose

The County desires to maintain a prudent level of financial reserves to guard its citizens against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. The fund balance has been accumulated to meet this purpose – to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

The primary reasons for a general fund reserve policy are to:

- **Plan for contingencies.** Because of the volatile revenue sources such as property and sales tax, governments will always face challenges when it comes to matching planned revenues with actual expenditures. Local events, such as the closure of a major employer, can also negatively affect revenue. Finally, extreme events such as winter storms or hurricanes can increase operating and/or capital costs. Reserves can be used to make up these temporary shortfalls.
- **Maintain good standing with rating agencies.** Bond rating agencies consider an adequate level of reserves a sign of creditworthiness because it enhances a government's ability to repay debt on time and in full.
- **Avoid interest expenses.** Cash reserves may be used rather than debt to fund capital projects.
- **Generate investment income.** Reserves can be a source for investment revenue, effectively reducing the burden on the property tax rate. To maintain the reserve's value as a risk mitigation device, investments will remain relatively liquid in compliance with the County Investment Policy.
- **Serve as a cash flow management tool.** Reserves can be used to cover times of the year that normally experience low levels of cash.
- **Create a shared understanding.** A formal reserve policy clearly outlines appropriate use of the reserves.

Administration and Implementation

The County Manager and Finance Director are charged with carrying out the policy.

Components of Fund Balance

Fund Balance vs. Reserves - Fund balance is an accounting term defined as the difference between assets and liabilities in a governmental fund. The term *reserves* is often used by public finance practitioners, but isn't an actual government accounting term. It refers to the portion of fund balance held in reserve to provide a buffer against financial distress or risk.

In governmental funds, "reserves" comprise a portion of total fund balance. Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* governs the descriptions used to report fund balance. The statement focuses on the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent" and breaks total fund balance into five (5) different components:

- **Nonspendable fund balance.** Fund balance in this category is inherently nonspendable.
- **Restricted fund balance.** This category has externally enforceable limitations on the use of fund balance, imposed by parties such as creditors, grantors, or laws or regulations of other governments.
- **Committed fund balance.** This encompasses limitations imposed by the government on itself at its highest level of decision making (e.g., governing board through a resolution). For example, the governing board might like to commit a portion of fund balance to a "stabilization fund" to provide a cushion against unknown economic downturns and revenue declines.
- **Assigned fund balance.** This category is for the portion of fund balance that is earmarked for an intended use. The intent is established at either the highest level of decision making or by a body or an official designated for that purpose. For example, a portion of fund balance might be assigned to offset a gap in the budget stemming from a decline in revenues or a portion could be assigned to pay for an upcoming special project.

- **Unassigned fund balance.** This encompasses all fund balances that are left after considering the other four categories. Use is least constrained in this category of fund balance.

The last three components (committed, assigned and unassigned fund balance) together comprise "unrestricted fund balance", which is the part of fund balance covered by this reserve policy because unrestricted fund balances are either unconstrained or the constraints are self-imposed, so they could be lifted in order to make fund balances available for other purposes. Conversely, restricted fund balances or nonspendable fund balances are not suited to many of the purposes a reserve policy typically is intended to fulfill.

Required Reserve Levels

The North Carolina State Treasurer recommends a minimum unallocated general fund balance of eight percent (8%). However, the County policy is more restrictive, requiring a minimum unallocated general fund balance of fifteen percent (15%) of the total actual expenditures and transfers. The minimum requirement will be reviewed by the Finance Director as changes in economic conditions occur, new legislation is enacted or revenue sources change. Fund balance appropriated will not exceed an amount management can reasonably expect to save during the year. If fund balance is appropriated to balance the following year's budget in an amount that, if spent, would reduce the percentage below fifteen percent (15%) an explanation of the circumstances of the utilization and a plan to save or replenish the fund balance will be included in the transmittal letter of the Comprehensive Annual Financial Report (CAFR).

Buncombe County
Debt Policy

Original Effective Date:	06-18-96
Dates of Revision:	08-07-12
	11-15-16

Purpose

The debt policy establishes parameters for issuing and managing debt to meet capital needs for essential County services to citizens. The scope of this policy includes debt issued and managed by the County for the capital needs of Buncombe County, Buncombe County Schools, Asheville City Schools, Asheville-Buncombe Technical Community College, and the Woodfin Downtown District. It is designed to provide financial flexibility by ensuring future capacity in order to take advantage of potential future savings opportunities.

Debt is issued in accordance with North Carolina General Statutes (NCGS) 160A-19, 160A-20 and 153A-165, and under the guidance and approval of the Local Government Commission, a division of the North Carolina State Treasurer. Buncombe County recognizes that a formally adopted local debt policy is an essential financial management tool and is fundamental to:

- Ensure fiscal prudence and promote financial sustainability;
- Document the decision-making process and enhance the quality of decisions;
- Identify objectives for staff to implement; and
- Demonstrate to investors and rating agencies that the County is dedicated to sound financial management.

It is the objective of the policy that:

- The County obtain financing only when necessary;
- The process for identifying the timing and amount of debt or other financing be as efficient as possible;
- The most favorable interest rate and other related costs be obtained, and
- The credit rating of the County is protected.

Both the Government Finance Officers Association (GFOA) and bond rating agencies strongly encourage the development of a formal debt policy.

Administration and Implementation

Per NCGS 159-36, the Board of Commissioners "shall enact a budget ordinance levying the necessary taxes or allocating the necessary revenue to meet all installments of principal and interest falling due on its debt during the budget year."

The County Manager and Finance Director are charged with carrying out the policy. The Finance Director is responsible for developing recommendations for debt financing. In addition, per NCGS 159-24, the Finance Director "shall maintain all records concerning the bonded debt and other obligations of the local government...and determine the amount of money that will be required for debt service or the payment of other obligations during each fiscal year...".

The debt policy is to be used in conjunction with the operating and capital budgets, the Capital Improvement Plan (CIP), and other financial policies.

The County will evaluate this policy at least every five (5) years.

Conditions for Issuance of Debt

The following standards help determine if debt is an appropriate option as circumstances change over time.

- **Favorable market conditions -** The County will strongly consider debt issuance, rather than paying cash, when interest rates are low and/or when construction costs are low or are projected to increase.
- **Favorable financial ratios -** See the "Financial Limitations" section of this policy.
- **Distribute costs and benefits appropriately -** Debt will be used to distribute the payments for an asset over its useful life so that benefits more closely match costs and the type of debt instrument will be chosen to help distribute public and private benefits appropriately.
- **Investment-grade bond ratings -** The particular project being funded will support an investment-grade credit rating.
- **Project characteristics support use of debt -** The County may issue debt for the purpose of acquiring or constructing capital assets including land, buildings, machinery, equipment, furniture and fixtures.
- **Minimum useful life -** Long-term debt will be issued to purchase or construct capital improvements or equipment with a minimum expected life of five years.
- **Resources adequate to cover debt service -** Long-term revenue and expenditure forecasts will support the assumption the government will be able to repay any debt without causing financial distress. Other non-financial factors such as population and

property valuation could influence the government's ability to service its debt over the long term and will be projected and taken into consideration.

- **Resources adequate to cover operating and maintenance costs** - Debt may be considered for maintenance projects that expand an asset's capacity or significantly extend it useful life; otherwise, the County will consider these costs when developing the CIP and a strategy to absorb these costs into the operating budget.

Annually, the County will prepare and adopt a CIP to identify and establish an orderly plan to meet the County's infrastructure needs. The CIP will also identify all debt-funded projects and the related debt service impact covering at least five (5) years.

Permissible Debt Instruments

- **General Obligation Bonds** - Bonds secured by a promise to levy taxes in an amount necessary to pay debt service, principal and interest, coming due each fiscal year. General Obligation Bonds are backed by the full faith and credit of the County. These bonds are authorized by a referendum or by non-voted two-thirds (2/3's) authorization by the Board of Commissioners. The non-voted authorization allows governments to issue up to two-thirds of the previous year's general obligation net debt reduction without a referendum.
- **Revenue Bonds** – Bonds secured by a pledge of the revenues generated by the debt financed asset or by the operating system of which that asset is a part.
- **Special Obligation Bonds** - Bonds that are payable from the pledge of any revenues other than locally levied taxes.
- **Certificates of Participation (COPs) / Limited Obligation Bonds (LOBs)** - An alternative financing method that does not require voter approval. These certificates/bonds represent an undivided interest in the payments made by a public agency pursuant to a financing lease or an installment purchase agreement. The security for this financing is represented by a lien on the property acquired or constructed.
- **Installment Purchase Contract** - An agreement in which the equipment or property is acquired and periodic payments, which are sufficient to pay debt service, are made.

Restrictions on Debt Issuance

It is the goal of the County to fund current services with current resources so a burden is not passed on to future taxpayers. This practice also assures future generations are not paying for an asset without benefiting from it, therefore:

- Long-term debt shall not be used to finance ongoing operational expenses;

- Long-term debt will not be amortized for a period beyond the life of the asset it is financing;
- An analysis of all debt options for the size of issuance will be completed to ensure the most cost efficient method of issuing and managing bonds is chosen;
- The County will limit the ratio of variable rate debt to fifteen percent (15%) of the outstanding net direct debt.
- The County will adhere to all legally authorized debt limits and tax or expenditure ceilings as well as coverage requirements and additional bond tests imposed by bond covenants;
- The County shall consider pay-as-you-go financing (also known as *cash* or *PayGo* financing) by using current resources, such as current tax dollars or accumulated reserves, for projects appropriate for this type of financing.

Financial Limitations

Per NCGS 159-55, net debt shall not exceed eight percent (8%) of the appraised value of property subject to taxation. However, local policy places the following additional restrictions and guidance on the use of debt financing and debt structuring beyond the terms of the General Statutes:

Ratio	Definition	Restriction
Net Direct Debt as a Percentage of Assessed Valuation	Measures debt levels against the property tax base which generates the tax revenues that are the main source of debt repayment.	Less than 3%
Net Direct Debt Service as a Percentage of Total Governmental Fund Expenditures	Measures the budgetary flexibility government-wide to adapt spending levels and respond to economic condition changes.	Not to exceed 18%
Payout of Net Direct Debt Principal	Measures speed at which the County's outstanding debt is amortized.	The County will strive for a 10 year payout ratio of 65% or greater and will maintain a minimum payout ratio of 55% or better.
Outstanding Variable Rate Debt as a Percentage of Net Direct Debt	Measures the amount of variable rate debt to which the debt portfolio is exposed.	Not to exceed 15%

Net direct debt is all tax-supported debt issued by the County and serviced by Governmental Revenues.

In the event that the County anticipates exceeding any of these debt policy limits, County staff may request an exception from the Board of Commissioners stating the justification and expected duration of the policy exemption.

In addition to the policy ratios listed, the County will review additional debt and financial ratios that are relevant to the credit rating agencies and other parties including but not limited to: Debt per Capita, General Fund Debt Service as a Percentage of General Fund Expenditures and Outstanding Net Direct Debt as a Percentage of Governmental Revenues.

Debt ratios will be calculated annually in conjunction with the capital budget process, the annual financial audit and as needed for fiscal analysis with comparisons made to like counties in North Carolina. In developing the benchmark group, the County will look for similarities along key dimensions such as:

- Level of urbanization
- Population size
- Economy
- Geography and weather
- Demographics, such as age and income
- Total general fund revenues and expenditures
- Revenue mix and diversity
- Scope of services delivered
- Form of government
- Bond rating

Structuring Practices

The life of the debt, interest mode and principal maturity schedule make up the structure of the debt.

- **Maturity Guidelines** - Debt will be paid off in a timeframe that is less than or equal to the useful life of the asset or project acquired through the financing.
- **Debt Service Schedule** - County debts will be amortized for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users of assets financed by the debt. Further, debt capacity should not be tied up servicing a defunct asset. It is the goal of the County to amortize all net direct debt issuances within twenty (20) years or less.

- **Level Principal Payments** - The County will strive to structure each bond issue with a level principal amortization. This structuring will assist in minimizing the interest payments over the life of the issue. However, the County may utilize an alternative amortization structure, which will be evaluated on a case by case basis and will be based on various factors including the project being financed, the County's overall net tax supported debt structure, key debt ratios and current market conditions.
- **Credit Enhancements** - Financial instruments that provide additional assurances to investors in the form of an added source of security for bond payments. These may be a letter of credit from a bank, bond insurance or surety policy and will be used only when the cost of the enhancement will result in a net decrease in borrowing costs or provide other significant benefits (e.g., make the bonds easier to sell).
- **Redemption Features –** Options that give the County the right to prepay or retire debt prior to its stated maturity. These features may be a call option or optional redemption provision and permit the County to achieve interest savings by refunding bonds early. Redemption features require constant monitoring and cost-benefit analysis and will be used only when the potential to reduce the cost of borrowing is present as evaluated on the following factors:
    - The call premium required;
    - Level of rates relative to historical standards;
    - The time until the bonds may be called at a premium or at par; and
    - Interest rate volatility.
- **Capitalized Interest** - The practice of using bond proceeds to pay the interest due on debt during the construction period of an asset. Capitalization of interest will never exceed the time necessary to construct the asset.
- **Pool Projects** - When feasible, debt issuances will be pooled together to minimize issuance expense.

Debt Issuance Process

All long-term financing shall comply with federal, state, and local legal requirements and the Board of Commissioners will approve each issue.

- **Method of Sale -** The County will use the following methods to sell bonds and installment purchase transactions:
    - **Fixed rate new money general obligation bond sales** are conducted on a competitive basis by the Local Government Commission (LGC), a division of the Office of the State Treasurer.
    - **COPs/LOBs, variable rate bonds, revenue and special obligation bonds** will be sold on either a competitive or a negotiated basis.
    - **Refunding transactions** will be sold on either a competitive or a negotiated basis.

  - **Bank loans or other financing alternatives** may be more cost effective than a public issuance in some instances and should be analyzed on a case by case basis.
- **Reimbursement Resolution** - If the cash requirements for capital projects are minimal in any given year, the County may choose not to issue debt. Instead, the County may adopt a reimbursement resolution, then fund up-front project costs and reimburse these costs when financing is arranged.

Professional Service Providers

- **Financial Advisor –**These duties include identifying capital financing alternatives and planning the debt program, working with other members of the financing team to determine the structure and timing of the issues, preparing bond documents and rating agency presentations. The Finance Director and staff can perform these duties, or can contract any or all financial advisory services if desired. The Financial Advisor should be independent of the Underwriter.
- **Bond Counsel –** The primary role of the Bond Counsel is to certify the County has legal authority to issue the bonds and the securities qualify for federal and state income tax exemption. Bond Counsel drafts bond documents including the official statement, ordinances and resolutions authorizing issuance and sale of a bond offering, and other necessary documents. Bond Counsel firms will be chosen based on experience in the area of municipal bonds and will be compensated on a negotiated fixed-fee basis.
- **Underwriter –** The primary function of the Underwriter is to purchase securities from the County and resell them to investors. Underwriters will be selected for each issue based on the particular experience and expertise necessary for that issue. The Underwriter's compensation (an "underwriter's discount") is a percentage of the amount of bonds sold and is negotiated for each issuance. When the amount of bonds to be issued exceeds twenty million dollars ($20 million), the LGC requires a co-manager underwriting firm in addition to the primary underwriting firm (Senior Managing Underwriter). Underwriters employ their own Counsel.
- **Trustee –** The Trustee receives funds from the County and makes payments to bondholders, maintains records of bond ownership and acts as fiduciary agent for the benefit of the bondholders in enforcing the terms of the bond contract.

Debt Management Process

- **Investment of Debt Proceeds –** Debt proceeds can be invested before they are spent on acquiring or constructing the assets they were issued to finance.
- **Arbitrage -** Typically, proceeds can be invested in instruments allowed for general government investments under NCGS. However, the one major difference specific to

tax-exempt bond proceeds is that of arbitrage limits. Limits apply to interest earnings on funds received from the issuance of tax-exempt bonds. The Finance Director, or designee, is to manage the investment of debt proceeds in order to minimize arbitrage liability, avoid penalties and protect the tax-exempt status.

- **Compliance Practices -** The County will monitor and comply with all requirements issued by the Securities and Exchange Commission (SEC) and Municipal Securities Rulemaking Board (MSRB), including rule 15c2-12, and file required documents in a timely manner.
- **Separate Accounts -** Debt proceeds are to be invested in accounts separate from general idle cash.
- **Refunding Bonds** - The practice of selling bonds to refinance outstanding bonds. The County will monitor the debt portfolio for refunding opportunities for any of the following reasons:
    - Interest rate savings;
    - Restructure debt service schedule; and
    - Restructure other compliance requirements.
- **Market and Investor Relations -** A policy of full and open disclosure on every financial report and long-term obligation transaction will be enforced. A credit rating agency presentation/update shall be conducted at least bi-annually.
- **Credit Rating Goals -** The County will manage itself with the goal of obtaining the highest credit rating(s) possible.

Special Situations

- **Use of Derivatives -** A derivative is a financial instrument whose value depends on other, more basic underlying variables. Derivatives may take the form of interest rate swaps; futures and options contracts; options on swaps; guaranteed investment contracts; repurchase agreements; and other investment or hedging mechanisms such as caps, floors, collars, and rate locks. Derivatives can provide interest rate savings, alter debt service patterns, and provide a hedge against risk associated with variable interest rate debt. However, derivatives also come with multiple risks that may outweigh the benefits. Before entering into any type of derivative, the County will carefully weigh the potential risks and benefits.
- **Interfund Borrowing –** The practice of loaning money between funds. This practice is considered a loan and repayment is necessary. The following procedures are to be followed:
    - The County Manager and the Finance Director are authorized to approve interfund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved within 90 days;
    - Any other interfund borrowings for cash flow or other purposes require approval by the Board of Commissioners;

  - o The fund receiving the loan shall repay the fund providing the loan on a level or accelerated repayment schedule at a prevailing rate of interest set by the Finance Department.
- **Variable Rate Debt (VRD) –** Debt that does not have a set or fixed long-term interest rate, but rather has an interest rate that varies over the life of the debt based on prevailing market interest rates at the time. Financial market disruptions have increased the County's wariness of variable rate debt due to interest rate, budgetary, repayment and political risk; however, VRD has traditionally represented an opportunity to make more effective use of tax dollars by lowering the cost of financing long-term capital assets. Therefore, staff is directed to forecast interest rate volatility over the short and long terms and expected performance of selected financial products under various interest rate scenarios and consider VRD when interest rates are dropping. Interest payments on VRD will be budgeted at the prevailing rate for fixed-rate debt and the interest savings will be used to pay down debt more quickly if permissible within the terms of the debt issuance.
- **Project Development Financing (PDF) -** Project Development Financing is a financing mechanism designed to pay for certain public investments needed to attract private development. Types of financing structures include Tax Increment Financing (TIF); Synthetic TIF; and Special Taxing Districts. This type of financing can carry additional risks that are not typically associated with traditional financing structures. This type of financing may require the adoption of specific PDF policies by the Board. Before entering into a type of PDF, the County will carefully weigh the potential risks and benefits of the transaction.
- **Short-term Debt –** A type of financing that may be used by the County for three (3) primary purposes:
  - o To cover a gap in financing when capital projects begin before long-term bond proceeds have been received;
  - o To take advantage of variable interest rates; and
  - o To finance short-lived assets such as vehicles.
- **Leases –** A type of financing most appropriate for smaller borrowings mainly because of the low cost of issuance. Leases may be used by the County for assets that cost over $200,000 and have a useful life that equals or exceeds three years.
- **Alternative Financing Products -** Products such as direct lending by banks are particularly useful for short-term financing needs and may have a variable rate. Covenants that could lead to acceleration of repayment are prohibited and the debt may not be transferred or sold to a third party.

Buncombe County
Investment Policy

SCOPE

This policy applies to all financial assets of Buncombe County except authorized petty cash accounts and trust funds administered by the Social Services Director. The County pools the cash resources of its various funds into a single pool in order to maximize investment opportunities. These funds are accounted for in the County's Comprehensive Annual Financial Report. Each fund's portion of total cash and investments is summarized by fund type in the combined balance sheet as equity or deficit in pooled cash and investments. This policy applies to all transactions involving the financial assets and related activity of all the various funds accounted for in the County's Comprehensive Annual Financial Report.

OBJECTIVES

1. **Safety**

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate **credit risk** and **interest rate risk**.

Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

a. Limiting investments to the safest types of securities;
b. Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which an entity will do business; and
c. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

a. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
b. By investing operating funds primarily in shorter-term securities.

2. **Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands **(static liquidity)**. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets **(dynamic liquidity)**.

3. **Yield**

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

a. A declining credit security could be sold early to minimize loss of principal;
b. A security swap would improve the quality, yield, or target duration in the portfolio; or
c. Liquidity needs of the portfolio require that the security be sold.

STANDARDS OF CARE

1. **Prudence**

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

3. Delegation of Authority

Authority to manage the investment program is granted to the Finance Director by North Carolina General Statute 159-30(a). Responsibility for the operation of the investment program is delegated by the Finance Director to the Investment Officer or other County employee who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures shall include references to: safekeeping, delivery v. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements, and banking service contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

SAFEKEEPING AND CUSTODY

1. Authorized Financial Dealer and Institution

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness (minimum capital requirement $10,000,000 and at least five years of operation). These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

a. Audited financial statements;
b. Proof of National Association of Securities Dealers (NASD) certification;
c. Proof of state registration;
d. Completed broker/dealer questionnaire; and
e. Certification of having read the entity’s Investment Policy.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Finance Director.

2. Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgements by management.

Accordingly, the Finance Director shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

a. **Control of collusion.** Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

b. **Separation of transaction authority from accounting and record keeping.** By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

c. **<u>Custodial safekeeping.</u>** Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.

d. **<u>Avoidance of physical delivery securities.</u>** Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

e. **<u>Clear delegation of authority to subordinate staff members.</u>** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

f. **<u>Written confirmation of telephone transactions for investments and wire transfers.</u>** Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.

g. **<u>Development of a wire transfer agreement with the lead bank or third party custodian.</u>** This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

From time to time, investors may choose to invest in instruments offered by minority and community financial institutions. These financial institutions may not meet all the criteria under Paragraph 1. All terms and relationships will be fully disclosed prior to purchase and will be reported to the Finance Director on a consistent basis and should be consistent with state or local law.

3. **Delivery vs. Payment**

All trades where applicable will be executed by Delivery vs. Payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

SUITABLE AND AUTHORIZED INVESTMENTS

1. Investment Types

Only the following investments will be permitted by this policy although others are authorized by North Carolina General Statute 159-30(c):

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

b. 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.

c. Obligations of the State of North Carolina.

d. 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.

e. Deposits at interest or savings certificates of deposit with any bank, savings and loan association or trust company in North Carolina, provided such deposits or certificates of deposit are fully collateralized.

f. Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest (A1, P1, F1) by any nationally recognized rating service which rates the particular obligation.

g. Banker's Acceptances provided the accepting bank or its holding company is either (1) incorporated in the State of North Carolina or (2) 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 (Aaa or AAA) by any nationally recognized rating service which rates the particular obligations.

h. Participating shares in a mutual fund for local government investment (such as the N.C. Capital Management Trust) which is certified by the N.C. Local Government Commission.

Consistent with GFOA Recommended Practice on Use of Derivatives by State and Local Governments, extreme caution shall be exercised in the use of derivative instruments.

2. **Collateralization**

In accordance with North Carolina General Statute 159-31(b) and the GFOA Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on deposits at interest and savings certificates of deposit. The County shall utilize the pooling method of collateralization and shall use only banking institutions approved by the North Carolina Local Government Commission.

3. **Repurchase Agreements**

Use of repurchase agreements is prohibited.

INVESTMENT PARAMETERS

1. **Diversification**

a. The investments will be diversified by security type and institution.

b. The combined total investment in commercial paper and bankers' acceptances shall not exceed twenty-five (25%) of the total portfolio and the investment in commercial paper or bankers' acceptances of a single issuer shall not exceed the lesser of five million dollars ($5,000000) or five percent (5%) of the total portfolio at the time of investment.

2. **Maximum Maturities**

The County's general intent is to make investments and hold until maturity. However, early liquidation may be necessary if cash flow demand warrants an earlier date of sale.

The County shall limit the maximum final stated maturities of investments to three years unless specific authority is given to exceed. To the extent possible, the County will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the County will not directly invest in securities maturing more than two (2) years from the date of purchase. The Finance Director shall determine what the appropriate average weighted maturity of the portfolio shall be.

Reserve funds may be invested in securities exceeding two (2) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds. The ability of investing these types of funds should be disclosed to and approved by the Board of County Commissioners including appropriate time restrictions, if any apply.

REPORTING

1. Methods

The Investment Officer shall submit a monthly investment report to the Finance Director. The report shall include a general description of the portfolio in terms of investment securities, maturities, yields and other features. The report will show investment earnings for the month and fiscal year-to-date, including the annualized earned yield percentage for the portfolio. The report will compare actual investment earnings with budgeted earnings.

The Finance Director shall prepare an investment report at least semi-annually, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last six months. This management summary will be prepared in a manner which will disclose whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the County Manager and the Board of County Commissioners. The report will include the following at a minimum:

a. A listing of individual securities held at the end of the reporting period.

b. Maturity dates.

c. The percentage of the total portfolio which each type of investment represents.

d. Average weighted yield to maturity as compared to applicable benchmarks.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall obtain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance shall be compared to appropriate benchmarks on a regular basis.

3. **Marking to Market**

A statement of the market value of the portfolio shall be issued at least semi-annually. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility. Review shall be consistent with the GFOA Recommended Practice on Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools.

POLICY

1. **Exemption**

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity of liquidation, such monies shall be reinvested only as provided by this policy.

2. **Amendment**

This policy shall be reviewed on an annual basis. Any changes must be approved by the County Manager and the Board of County Commissioners as well as the individual(s) charged with maintaining internal controls.

ADOPTED 06/18/96