



# Establishing a Reserves Policy

*Presented by*

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**BUNCOMBE COUNTY**



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# Key Takeaways

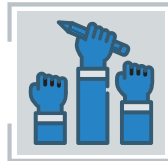
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**BUNCOMBE COUNTY**



**The need for a Reserve Policy**



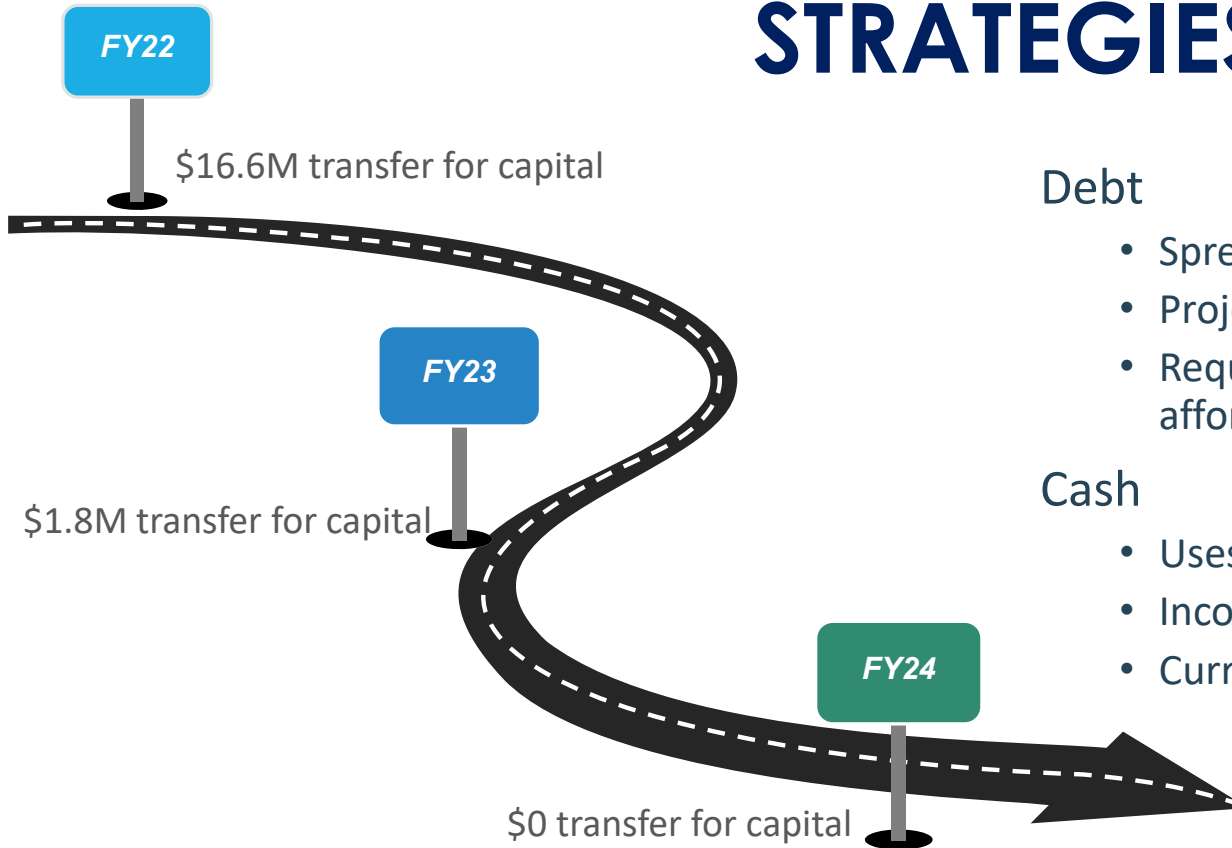
**Understanding the difference between  
Fund Balance and Reserves**



**Best Practices of Fiscal Sustainability**



# CURRENT CAPITAL FUNDING STRATEGIES



## Debt

- Spreads costs over multiple years
- Projects ultimately cost more (interest)
- Requires analysis of debt capacity and affordability

## Cash

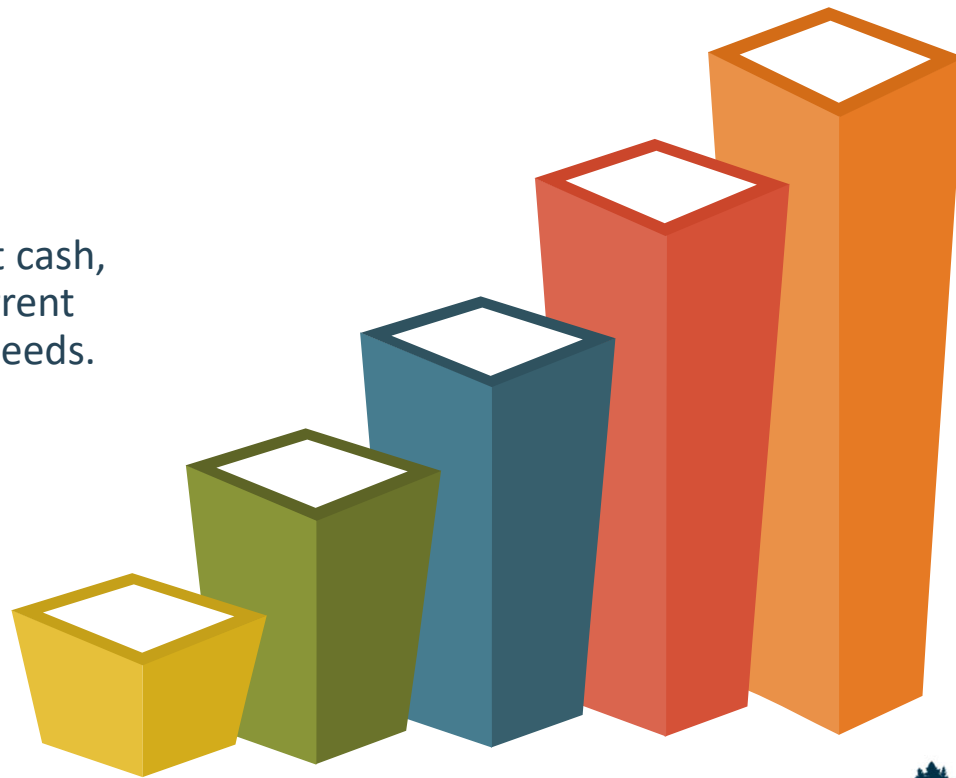
- Uses available cash to pay for project(s)
- Inconsistent funding over recent years
- Current Fund Balance Policy



# Why Adopt a Policy to Create Reserves?

Close the gap:

Regardless of utilizing debt or current cash, we must find a way to pay for our current needs and build towards our future needs.



# Fund Balance vs. Reserves



## Fund Balance

Funding used to cover loss of revenue, declines in the economy, natural disasters, public safety and health emergencies.



## Reserves

A dedicated funding source to meet community needs. A policy driven solution for savings to address increasing capital costs, deteriorating assets, deferred maintenance, and growth



# Pillars of Fiscal Sustainability



## Capacity

The level of debt the organization can add without violating statutory and policy debt limits and/or triggering a reduction in credit rating.



## Liquidity

The availability of cash to meet our funding needs.



## Affordability

The degree to which the organization can commit to funding a capital program without increasing the burden on the community.



# Understanding Capacity



Both the State and County's Debt Policy limit the amount of debt the County can have. This applies to all funds, not just the General Fund.



Bond Credit Rating agencies consider debt-load when giving the County its Bond Rating. Better Bond Ratings produce lower interest rates.



- ❖ ~\$370M in existing debt
- ❖ ~\$190M in pending debt
- ❖ ~\$320M in potential CIP debt



# Understanding Liquidity

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**Impact credit rating**



**Earning interest until cash is needed**



**Cash on-hand reduces dependency on debt**





# Understanding Affordability



## Impacts cost of living

1¢ of the current tax rate generates ~\$5M in funding sources for the General Fund



## Impact quality of life

\$5M can cash fund \$5.25M or debt fund \$2.6M of the capital program



## Opportunity Cost

The timing of when capital projects are initiated requires different funding amounts.



# Next Steps

- Discussion
- Staff research and draft reserve policy
- Bring recommendation to next budget workshop (March)



# Discussion

