Establishing a Reserves Policy

Presented by
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Key Takeaways

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

FY22: $16.6M transfer for capital
FY23: $1.8M transfer for capital
FY24: $0 transfer for capital
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

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

**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.
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

- Impact credit rating
- Earning interest until cash is needed
- Cash on-hand reduces dependency on debt
Opportunity Cost
The timing of when capital projects are initiated requires different funding amounts.

Impact quality of life
$5M can cash fund $5.25M or debt fund $2.6M of the capital program

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

Understanding Affordability
Next Steps

• Discussion

• Staff research and draft reserve policy

• Bring recommendation to next budget workshop (March)
Discussion