Cumberland County

4.4 Reserve / Fund Balance Policy

4.4.1 In accordance with State statute, appropriated fund balance in any fund will not exceed the sum of cash and investments less the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts.

4.4.2 The County will maintain a General Fund unassigned fund balance of no less than 10% which exceeds the minimum eight percent (8%) recommended by the LGC. Additionally, the target goal for total spendable fund balance will be at least 15% of total expenditures for the fiscal year. The annual appropriation for subsequent years' expenditures should not exceed 3% of budgeted recurring general fund expenditures.

a. Purpose of Reserve: These funds will be utilized to avoid cash flow interruptions, generate interest income, eliminate the need for short-term borrowing, and maintain the County's credit ratings.

b. Reserve Draw Downs: The fund balance may be purposefully drawn down below the target percentage for emergencies, nonrecurring expenditures, or major capital projects.

c. Reserve Replenishment: If the fund balance falls below the target percentage for two consecutive fiscal years, the County will replenish funds by direct appropriation beginning in the following fiscal year. In that instance, the County will annually appropriate 20% of the difference between the target percentage level and the actual balance until the target level is met.

4.4.3 Any General Fund unassigned fund balance that exceeds the 10% target goal may be reserved for onetime future projects.

4.4.4 The County will appropriate within the annual budget a General Fund Contingency appropriation each fiscal year of at least $500,000.

4.4.5 The County shall maintain a School Capital Reserve account and all funds accumulated shall be used for debt service on school related debt and other school capital needs.

a. Based on the North Carolina Association of County Commissioner's methodology for calculating statutory Article 40 and 42 set asides for school construction, the Board has committed these sales tax funds to the purposes listed immediately above.

b. All Public School Building Capital Fund ("ADM money") and Lottery proceeds shall be budgeted within the School Capital Reserve account and shall be used for debt service for school related debt and for school construction needs as appropriate.

4.4.6 Assigned for subsequent years' expenditures is the portion of fund balance that has been approved by formal action of the Board of County Commissioners for appropriation into the next fiscal year. A modification of this amount requires action by the Board. The Board may at its discretion, make other assignments of fund balance. The Board authorizes the County Manager to amend these assigned amounts to comply with the County's fund balance percentage policies.

5.1.4 Debt Policy

a. Debt will only be incurred for financing capital assets that, because of their long-term nature or because of budgetary restraints, cannot be acquired from current or budgeted resources. Debt will not be used for operational needs. Debt financing can include general obligation bonds, revenue bonds, certificates of participation, lease/purchase agreements, special obligation bonds, or any other financing instrument allowed under North Carolina law.

b. The County will seek to structure debt and to determine the best type of financing for each financing need based on the flexibility needed to meet project needs, the timing of the project, taxpayer or rate payer equity, and the structure that will provide the lowest interest cost in the circumstances. The following guidelines will be used when structuring debt:

1) Debt will be amortized on a level principal or level principal and interest basis, depending upon the specific nature of the financing.

2) Maximum term of amortization of principal will be twenty-five years, twenty years for general obligation debt. Average life of outstanding debt will not exceed fifteen years.

3) For general obligation debt, fifty percent of the total outstanding debt will be amortized in the first ten years of total debt outstanding.

4) Fixed rate will be the predominant interest rate for County issuance. Variable rate debt will be considered on a case-by-case basis and will not exceed fifteen percent of total outstanding debt of the County. Issuance of variable rate debt will be undertaken after considering interest rate risk, ability to hedge risk in the annual budget, internal levels of fund balance, and other elements of interest rate risk management.

c. Debt financing will be considered in conjunction with the County's CIP. Debt financing will also be considered in the Board's review of facility plans presented by the Board of Education.

d. Upon Board approval of a capital project and a determination that the project will be financed through issuance of debt, The Board will increase the property tax rate in an amount equivalent to the additional annual operating costs and principal and interest payments in the upcoming fiscal year, if deemed necessary.

e. The County will strive to maintain a high level of pay-as-you-go financing for its capital improvements.

f. Debt Affordability

1) The net debt of the County, as defined in G.S. 159-55, is statutorily limited to eight percent of the assessed valuation of the taxable property within the County. The County will utilize a self-imposed ceiling of 4%.

2) Total General Fund debt service will not exceed the limits imposed by the LGC. As a guide, formulas established by the LGC and rating agencies will be monitored and appropriately applied by the County. Debt service as a percentage of the general fund budget will be targeted not to exceed 15%.

b. The County will seek to structure debt in the best and most appropriate manner to be consistent with Asset – Liability Management policies.

c. The County will seek to employ the best and most appropriate strategy to respond to a declining interest rate environment. That strategy may include, but does not have to be limited to, delaying the planned issuance of fixed rate debt, examining the potential for refunding of outstanding fixed rate debt, and the issuance of variable rate debt. The County will seek to employ the best and most appropriate strategy to respond to an increasing interest rate environment. That strategy may include, but does not have to be limited to, the issuance of variable rate debt (a historically lower interest cost), or any other methodology deemed appropriate.

d. The County will monitor the municipal bond market for opportunities to obtain interest rate savings by refunding on a current or advance basis for outstanding debt. The estimation of net present value savings for a traditional fixed rate refunding should be, at a minimum, in the range of 2.5% to 3% of the refunded maturities before a refunding process begins.

e. The County will strive for the highest possible bond ratings in order to minimize the County's interest costs.

f. The County will normally obtain at least two ratings (Moody's and Standard & Poor's) for all publicly sold debt issues.

g. While some form of outstanding debt exists, the County will strive to have a portion of that debt in the form of general obligation debt.

h. The County will provide annual information updates to each of the debt rating agencies.

i. The County will use the Comprehensive Annual Financial Report (the "CAFR") as the disclosure document for meeting its obligation to provide certain annual financial information to the secondary debt market via various information repositories. The annual disclosure is a condition of certain debt covenants and contracts that are required by SEC Rule 15c2-12.