



Financial and Reserve Policies

Public Policy Workshop

January 8, 2019



Agenda

- Financial Policies Overview
- Fund Balance Policy
- Debt Policy
 - Debt Service Fund
 - Pay-As-You-Go Capital Funding
- Deferred Maintenance
- Enterprise Reserves
- Questions?



Financial Policies Overview

- Financial policies serve as the framework for the County's strong fiscal stewardship and are fundamental to maintaining AAA credit rating
- Collectively, these policies and fiscal discipline demonstrate the County's commitment to long-term financial and capital planning and strong financial management



Fund Balance Policy

- The Fund Balance Policy establishes the minimum fund balance that the County will maintain
 - Minimum combined General Fund and Debt Service Fund balances at 28% or more of General Fund Revenues
 - Minimum 8% of Adopted Budget reserve in “unassigned”
- Establishes that Fund Balance appropriations should only be for non-recurring, one-time expenses
 - Avoids creating structural imbalance in the County Budget
- Fund balance provides the County the ability to respond effectively to unexpected economic or other revenue shifts
- Policy follows North Carolina Law, State Treasurer’s Office guidance, and generally accepted governmental accounting principles and best practices

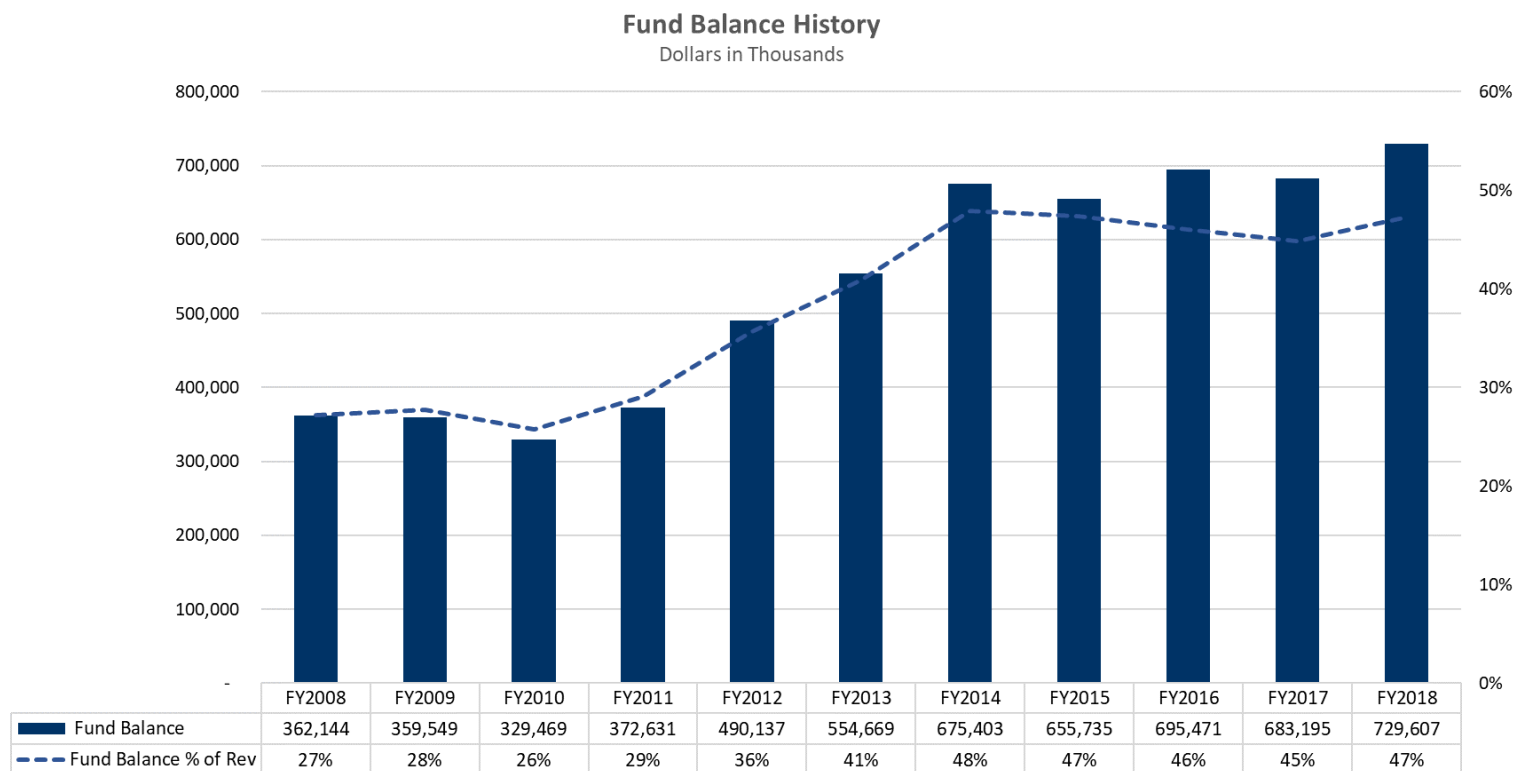


Fund Balance Policy

- Finance monitors the fund balance
- If the fund balance falls below 28% of General Fund Revenues at the end of a fiscal year—triggers a replenishment period
 - Over the next two fiscal years, the Adopted Budget will appropriate funds to replenish fund balance to minimum levels
 - The Board of County Commissioners can extend the replenishment period to three years



Fund Balance History



Total fund balance as a percent of revenue has been holding steady post-recession at healthy levels, with sufficient room over the threshold to provide flexibility to respond to unexpected needs.



Debt Policy

- The Debt Policy covers all aspects of debt management—
 - Timing and purpose for borrowing
 - Issuance, repayment, and reserves
 - Types of debt instruments, timing, and methods of sale
- Established the Debt Service Fund
- Established Pay-As-You-Go policy, “Pay Go”
- Policy updated in October 2018



Debt Service Fund

- Established in 2012 to provide separate dedicated funding for debt service management
- Policy requires
 - Adopted Budget appropriate a portion of all available revenues to the Debt Service Fund
 - Minimum Debt Service Fund balance of 2x non-property tax revenues
- If the respective General Fund and Debt Service Fund balance minimum thresholds are met, a portion of the Debt Service Fund may be utilized for Pay Go Capital Funding



Pay-As-You-Go Capital Funding

- Pay Go Capital Funding is direct funding (cash) of capital expenditures
- Use of Pay Go helps reduce the County's reliance on borrowing—helping reserve debt capacity and reduce unnecessary interest costs
- Pay Go is funded from two sources:
 - Dedicated funding stream with annual appropriation of three cents of the property tax rate
 - Additional appropriations may be considered if the overall Fund Balance exceeds the minimum 28 percent of General Fund Revenues Threshold



Pay-As-You-Go Capital Funding

	FY2015	FY2016	FY2017	FY2018	FY2019*
Appropriations in (\$000)	\$34,688	\$35,111	\$36,117	\$38,462	\$37,540
Transfers	\$85,588	\$95,911	\$118,117	\$77,541	\$38,461
Totals	\$120,276	\$131,022	\$154,234	\$116,003	\$76,001

Appropriations as reflected in annual budget ordinances; additional amounts are transferred over the year as authorized.

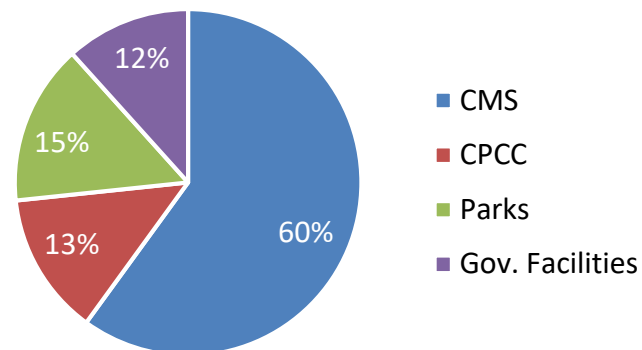
*FY 2019 reflects totals to date.



Deferred Maintenance

- The County has a 5-year \$150 million Deferred Maintenance Plan (FY17 – FY21)
- Long-term strategy to maintain and support capital assets
 - Provides dedicated, stable funding stream for planned maintenance and replacement
 - Funded through a half-cent increase in fund balance allocation for reserves, excess fund balances, and PayGo funding
 - Plan developed in close coordination with business partners to reduce deferred maintenance backlog

\$30 Million Annual Funding By Category





Deferred Maintenance

- Stable funding for deferred maintenance has allowed business partners ability to plan proactively manage backlog
 - Improves operations reliability
 - Eliminates most emergency “one-time” funding
- Allows business partners to strategically schedule work to take advantage of seasonal conditions, adjacent sites, trades and materials, school calendars, etc. to maximize return on investment
- Examples include:
 - CMS JT Williams Roof Replacement
 - CPCC South Energy Plan Infrastructure Upgrades
 - Park & Rec: shelter replacements, trail repairs and erosion controls, and ADA-compliant renovations to facilities
 - AFM: Program resulted in a 30% increase for replacement/repair maintenance, with full funding of all critical projects in FY 2019



History of the Enterprise Reserves

- A pay-as-you go strategy that ensures a **dedicated, sustainable, & predictable** funding source for ongoing investments in technology, facility and fleet assets
- 3 Types of Enterprise Reserves:
 - Technology Reserve (FY05): fund investments in technology. (software & hardware)
 - Capital Reserve (FY06): funds the replacement, renovation, & repair of capital assets.
 - Fleet Reserve (FY06): based on a study that concluded the age of the County's fleet was well beyond industry standards. As a result, the Board approved a fleet reserve to provide a stable funding source for fleet replacement.
- The funding amount fluctuated between the equivalent of ½ - 1 cent



Enterprise Reserves Policy Refresh

- Policy refresh approved as part of the FY2014 budget process
- Established enterprise reserve appropriation
 - 1.75 cents minimum appropriation
 - Defines allocation to 3 reserves
 - The Fund Balance policy (amended on June 21, 2016) provides for a cap of 2.25 cents. This is a maximum rather than a minimum, which allows for 1.75 cents to fund the enterprise reserves and .5 cents for deferred maintenance
- Established a robust review process for funding requests
- Refined the goals of each enterprise reserve



Enterprise Reserves Goals

- Capital:** Mecklenburg County will pursue a strategy for the replacement & repair of capital assets to achieve optimal investment of public funds & maintain continuity of service.
- Fleet:** Mecklenburg County will purchase, lease, or otherwise obtain the most energy efficient vehicles possible to meet the business needs of the County within budgetary constraints.
- Technology:** Mecklenburg County will invest in technology that has a positive return on investment and enhances the County's ability to manage its information technology assets and serve customers.



Enterprise Reserve Definition

Enterprise Reserve	Used for
Capital Repair & Replacement	Projects that are facility maintenance, repair, or renovation/reconfiguration-related and are between \$25,000 and \$250,000, or involve roof and equipment replacement.
Fleet	Existing vehicles and equipment.
Technology	Technological improvement projects that require multi-year funding or exceed \$100,000.



Capital Reserve Criteria

HIGH RISK	LOW RISK
Critical <ul style="list-style-type: none">• Compliance• Safety• Structural	Medium <ul style="list-style-type: none">• Efficiency Enhancements• Equipment Upgrades
High <ul style="list-style-type: none">• Exceeded useful life• Modernization• Recurring problems	Low <ul style="list-style-type: none">• Cosmetic• Vacant properties



Fleet Reserve Criteria

Criteria	Points
Age	1-4
Mileage	1-4
Maintenance Cost	1-4
Total	3-12

Point total of (8) or above indicates the vehicle should be replaced



Technology Reserve Categories

Category	Description
Foundational	<ul style="list-style-type: none">• Compliance• Security, privacy & controls• IT strategic business plan alignment
Stability & Reliability	<ul style="list-style-type: none">• Minimize downtime• Address end of life equipment
Efficiency & Cost Avoidance	<ul style="list-style-type: none">• Results in expense savings and cost avoidance• Improve the efficiency of the operation
Strategic	<ul style="list-style-type: none">• Direct correlation to the County's strategic vision & goals• High return-on-investment projects
Enhancements	<ul style="list-style-type: none">• Typically smaller investments (<\$100K) that improve service delivery
Innovation	<ul style="list-style-type: none">• Test & learn leveraging leading technology solutions



Enterprise Reserves Funding Summary

Reserve	FY2015	FY2016	FY2017	FY2018*	FY2019**
Capital	10,000,000	8,000,000	8,000,000	8,000,000	11,100,000
Fleet	4,800,000	2,000,000	1,000,000	1,832,000	2,262,790
Technology	9,980,000	6,000,000	15,000,000	12,417,000	9,100,000
Total	24,780,000	16,000,000	24,000,000	22,249,000	22,462,790

Reserves have been funded with fund balance beginning in FY2015

* Does not reflect \$2,307,000 added to technology reserve to enhance security infrastructure



Return on Investment: Fleet Reserve

- Since FY2015, the average age of the fleet has been reduced from 5.3 years to 4.3 years
- Younger fleet results in fewer costly repairs
- Higher number of newer vehicles results in lower emissions for total fleet



Return on Investment: Capital Reserve

- FY2019 is the first year that all critical and high priority projects were funded
- Additional funding results in less down time due to equipment breakdowns
- Replacement of older equipment reduces energy costs
- Cost avoidance for unplanned/unforeseen cost in operating & capital



Return on Investment Technology Reserve

- Security first: funding to reduce cybersecurity risks, leveraging a layered approach to reduce vulnerabilities from multiple perspectives to include protection of all technology assets (data, network and endpoints)
- Mature ITS Capabilities: Staying current with changes in the industry further protects the County from security vulnerabilities. Reserve funding enables the County to maintain minimum standards in technology. Investments in tools has accelerated our process maturity leading to increased efficiencies and effectiveness of staff, with improved quality.
- Resident Responsive Platform: Investments in our enterprise platform positions the County to leverage modern capabilities that provide citizens with more digital access to County services; delivering a customer service experience that is seamless, simple, anytime and anywhere.



Questions?