Response to Questions on the FY 2018 Third Quarter Review

Request By: Supervisor Foust

Question: Please provide additional information on current debt service balances and how those balances were accumulated.

Response: As part of the FY 2016 Adopted Budget Plan, the Board of Supervisors revised its financial policies to adopt higher reserve targets. One of the mechanisms to increase these reserves was to allocate debt service savings from County bond refundings to the County's reserves. Following the adoption of these revised financial policies, a series of transfers occurred in FY 2015, FY 2016, and FY 2017 to move monies from the savings associated with the advance refunding bond sales to the Revenue Stabilization Fund. As part of the Federal Tax Reform effective January 2018, advance refundings are now prohibited. As a result, this can no longer be a reliable source of funding to increase reserve levels going forward. Prior to the adoption of this policy, refunding savings that were achieved remained in the debt service fund and contributed in part to the ending balance in the debt service fund.

When budgeting for new bond sales, the County assumes a conservative interest rate of four percent. The actual interest rates on the bond sales have typically been lower than projected and thus have generated lower debt service figures. These savings over several prior years compounded to also contribute to the ending balance in the debt service fund. The bond sale in January 2018 occurred earlier than normal and thus allowed for adequate timing to lock in final debt numbers rather than estimates as part of the FY 2019 Advertised Budget Plan. As interest rates continue to rise given the direction of the Federal Reserve, staff will continue to monitor and consult with its financial advisor on the appropriate level of out-year interest rate projections.

Other funding, including higher than budgeted revenues and lower than budgeted cost of issuance, has also contributed to the ending balance in the debt service fund.

Prior to the *FY 2018 Third Quarter Review*, the projected fund balance in the Debt Service Fund was approximately $23.5 million. After transferring out $12.2 million for one-time Capital and Information Technology projects, there is a net balance of approximately $11.3 million in the fund.

While there is no direct Board guidance on the potential use of these monies, staff would recommend leaving a balance of at least $10 million for unforeseen circumstances. These funds are not currently counted towards reserve calculations, and can remain a one-time funding source, including for the Economic Development Support Fund, when planning for future budgets.