

Capital Reserves and Pay as You Go

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What is a Reserve Fund?

- a. Accounting practice
- b. Asset Management tool
- c. Capital finance strategy
- d. Philosophical statement
- e. All of the above?

Accounting Options

- Capital reserve fund established under G. S. 159-18
- Accumulation of reserves within general fund or other operating fund balance.
 - Designating general fund balance for future capital purposes.
 - Undesignated
- Equipment replacement or infrastructure rehabilitation revolving fund.
- Balances in special revenue or capital projects fund balances.

§ 159-18. Capital reserve funds.

- Part 2. Capital Reserve Funds.
- Any local government or public authority may establish and maintain a capital reserve fund for any purposes for which it may issue bonds. A capital reserve fund shall be established by resolution or ordinance of the governing board which shall state (i) the purposes for which the fund is created, (ii) the approximate periods of time during which the moneys are to be accumulated for each purpose, (iii) the approximate amounts to be accumulated for each purpose, and (iv) the sources from which moneys for each purpose will be derived. (1943, c. 593, ss. 3, 5; 1957, c. 863, s. 1; 1967, c. 1189; 1971, c. 780, s. 1.)

Capital Reserve Fund (G. S. 159-18)

- **Must be established by governing board ordinance or resolution.**
- **Resolution should specify:**
 - Purpose—project, function, general
 - Period of time—can be on-going
 - Amount—specific amount overall or annually, up to so much per year, etc.
 - Sources of funds
- **Amendments**
 - Can change purpose, e. g., from fire to parks.
 - Cannot use to fund operating expenditures

Funding a Capital Reserve

- Ad hoc, as “extra” money becomes available
- Capital fees (impact charges etc.)
- Excess above general or other operating fund balance target
- Policy committing annual appropriation to capital reserve,
- Policy earmarking annual revenue for reserve
 - Special tax, e. g., prepared foods tax
 - General tax or revenue, e. g., 3 cents of tax rate.
- Usage or depreciation charges for equipment or buildings. Consistent with GASB 34.

Combined Capital Reserve/Debt Service Fund

- Set up “capital reserve” fund for money earmarked either for pay-as-go capital financing, or for debt service or capital lease payments incurred for capital purposes.
- While debt service is not a capital expenditure per se, bond proceeds may be used to pay debt service. Therefore, a capital reserve fund may be used to pay debt service as well as for pay as go capital financing.

Examples

- WSACC
- Other??