



MEMORANDUM

TO: Commissioner Paul Gibson
FROM: Willie A. Best, County Manager *(WAB)*
DATE: February 14, 2005
SUBJECT: Legacy Fund

Attached is the evaluation from Brenda Fox on the Legacy Fund. The information is open for discussion, so please do not hesitate to contact me if you require additional information or have any questions.

WAB:kwm

Attachment

cc: Board of County Commissioners

MEMORANDUM

Guilford County Finance Department

FEB - 9 2005

To: Willie Best
County Manager

From: Brenda Jones Fox
Finance Director

Date: February 7, 2005

Re: Legacy Fund

We have reviewed the Legacy Fund information at your request and have the following comments:

Based on the current taxable value, the projected annual contribution to the Legacy Fund based on a \$.05 countywide property tax levy would exceed \$20 million if enacted in 2006. This contribution would grow annually from there as the county's taxable value grows. The increase in taxable value in the last decade has averaged approximately 3.5 % annually from growth, however when revaluation is included the average annual increase exceeds 5.0 %. In 2003 and 2004 the growth rate was less than 1.5%. There are a variety of combinations of taxable value growth and investment return that could generate a fund of \$1 billion in twenty years with a \$.05 tax levy. One example that is reasonable would be an average annual growth rate in taxable value of 4.5% combined with an average investment return between 4.75-5.0% annually.

The interest rate assumption used for the income from the fund assumes 4.5% to 7.5% rate of return. This is a reasonable assumption if longer-term investments are used which generally carry a higher yield. This is possible under a structure like the Legacy Fund where the principal remains intact and therefore could be invested for a long time period.

In the description of the Legacy Fund, under Section IV. Procedures to follow A. it states, "All yearly taxes and other contributions together with all previous principal and interest amounts shall be put out to bid each six months period so as to achieve maximum fund growth annually". The way this section is written to include all previous principal and interest amounts would appear to limit the investment horizon to a six-month period. If this were the case it would limit investment returns. The parameters put on the investment of such a fund should be flexible and broadly drawn guidelines that will allow earnings to be maximized while still providing a reasonable degree of safety. Consideration should be given to allowing the use of professional money managers to manage a portion of the portfolio. Some larger local governments in North Carolina with very large portfolios already do this.


Politically it may be difficult to get voter support to incur this size tax burden for which the payoff occurs well in the future. The structure places the burden of creating the Legacy Fund on taxpayers for the next twenty years however the benefits only accrue to taxpayers and citizens beyond a twenty-year horizon raising the issue of intergenerational equity. If the Legacy Fund were to pass it could make it more difficult to get voter approval to provide additional funding for capital needs that are currently present or would occur during the 20 years prior to any funds being available from the Legacy Fund.

The size of the fund seems to be arbitrary in that it is not keyed to any projection of the necessary funding to provide for future capital needs, which could draw criticism. This becomes more important if capital spending by the County is limited to the income provided from the Legacy Fund as proposed on page 3. While \$45-75

million annually may seem like a lot of capital funding the county in recent years has been providing funding to just schools for capital outlay well in excess of \$50 million annually for the last several years. With inflation over twenty years a fund of \$1 billion may or may not provide for the County's capital needs. The proposal does provide that a one-cent tax levy could remain to grow the fund to a higher level if necessary.

In the description of the Legacy Fund, Section IV. Procedures to follow under operation of the fund it provides that funds may be withdrawn from the fund in an amount not to exceed the previous full year interest yield. One consideration might be to allow the undrawn amounts from any fiscal year to be available to be drawn in future years to allow the investment of these funds to be managed within the Legacy Fund. If this flexibility was not allowed the maximum amount would be taken each year even if it may not be needed till several years down the road in order to avoid loss of the funding.

Please feel free to call if you have any questions.

A handwritten signature in black ink, appearing to read "Brenda Jones Fox", is written over the printed name.

Finance Director