Town of Bluffton, South Carolina
Establishing a New Fund Balance and Capital Asset Reserve Policy

GFOA Best Practices
- Fund Balance Guidelines for General Fund
- Strategies for Establishing Capital Asset Renewal and Replacement Reserve Policies

About Bluffton, South Carolina
Established in 1825 as a popular summer location for wealthy Savannah merchants and plantation owners, the Town of Bluffton is the heart of South Carolina’s Lowcountry, located just 12 miles from Hilton Head Island. In 2021, Bluffton had a population of 27,716 people.

Located in the heart of South Carolina’s Lowcountry, the Town of Bluffton has experienced significant population growth, up from 1,000 to nearly 28,000 people in just 25 years—making Bluffton the fastest-growing municipality in the state. The rapid population increase not only resulted in growth to the Town’s resources, but also the many demands for it. As a result, officials conducted financial risk assessment and long-term planning studies to create new fund balance and capital asset reserve policies—which needed to account for unique risks and needs. Here is how officials assessed risk and built policies to help the Town of Bluffton navigate continued growth and a more secure future.

Building a Policy on Strong Foundations
Bluffton’s population has increased by more than 1,000 percent since 2000, and the growth trend is far from over: Driven by planned development and an influx of out-of-state retirees, population growth is anticipated to reach 65,000 in the next 10 to 15 years. So far, the upsurge has resulted in a significant accumulation of cash, a trend that is also expected to continue.

A new policy would need to account for continued growth while also factoring in the town’s unique risk profile. Its coastal location means that Bluffton is at higher risk for experiencing a hurricane, with damage and rebuilding costs that can reach $50 million and more.
Despite these realities, the town was able to be proactive. “We could assess our situation and develop a policy while cash positions were healthy,” said Chris Forster, assistant town manager. “Not all government entities have that luxury. Often, they must implement a fund balance policy from a tough financial position.”

Until late 2021, Forster was director of finance, and he led the financial assessment and fund balance policy initiative. The Town of Bluffton operates under a council-manager form of government, with a mayor and four council members. The administrative staff, including Forster’s team, works with this leadership. Forster explained: “Council began to question whether we were accumulating too much in reserves, and what we should do with existing reserves—reduce taxes or invest in capital projects. Without taking a comprehensive look, we couldn’t answer one way or another with confidence.”

The Town of Bluffton’s strategic plan includes financial resilience as a strategic focus area. As Forster noted, the first guiding principle is “to demonstrate fiscal responsibility through established financial policies, budgeting, and financial standards that meet the excellence requirements and financial reporting established by GFOA.” As this area had not been thoroughly evaluated in several years—during which the population continued to grow, and hurricanes continued to affect coastal communities—the mayor and council tasked Forster and his team with researching best practices, assessing risk and fund balance priorities, and conducting a peer review before providing recommendations.

**ASSESSING UNIQUE NEEDS**

To better understand risk and to estimate the cost consequences, Forster embarked on a peer review of comparable coastal towns, including communities like the cities of Charleston, Myrtle Beach, Savannah, and Hilton Head. One aim of the review was to understand the approaches these cities took to fund balance policy. Hilton Head was the closest comparable community, so Forster consulted with its finance director and learned that Hilton Head had taken a hard hit from Hurricane Matthew in 2016, which had resulted in $54 million in damage and rebuilding costs.

GFOA guidance on risk assessment stipulates that each community should assess its unique needs. An optimal fund balance for a community in a hurricane-prone area like Bluffton would be larger than that of a community that didn’t face this risk. “When we did the risk assessment profile,” Forster explained, “we determined that the unassigned fund balance portion should really be between 26 and 35 percent. We looked at the higher end of that range given our location.”

Forster sought a basis for quantifying costs and determining a designated portion of the reserves to set aside for emergency recovery. He turned to a study on the financial impacts of hurricane damage produced by University of Florida researchers, the “Quantitative Method for Estimating Probable Public Costs of Hurricanes.” The study identified the per-capita costs of recovering from hurricanes, with scenarios for Category 1 to 5 storms based on historical data. Because the study dated from 1999, Forster incorporated inflation adjustment to bring the financial costs in line with the present day, arriving at an estimate of $1,400 per capita in recovery costs for a Category 4 hurricane. Forster then combined the research and inflation-adjusted projections with actuals from Hilton Head’s recovery from Hurricane Matthew, which ultimately cost $1,450 per capita.

**CREATING THE POLICIES**

Ultimately, Forster and the finance department combined this research, the peer review, and GFOA’s risk assessment tool as a foundation for performing a long-term financial projection, projecting growth, analyzing the capital improvement plan and future assets, and assessing current depreciable assets.

The optimal fund balance for coastal towns like Bluffton is larger due to a higher risk of damage caused by hurricanes. In 2016, Hurricane Matthew caused tens of thousands of dollars of damage to the South Carolina coast, including the City of Charleston (pictured below).
This information was presented to the council at a workshop session early on in the budget process. Feedback was collected and incorporated into recommendations on new fund balance and capital asset reserve policies presented as part of the council’s budget sessions.

The recommendations were to:

- Increase the emergency reserve fund to 15 percent of all budgeted funds expenditures.
- Revise the equipment reserve fund into a capital asset reserve fund that sets aside the equivalent of 50 percent of depreciation expense from the most recently audited financial statements, up to a cap of the most recent five years of depreciation expense.
- Increase the undesignated reserve to 35 percent of general fund expenditures.

The emergency reserve fund is for scenarios including natural disasters, economic disasters, or acts of war. The unassigned fund balance acts as backup to the emergency reserve fund and can only be used for one-time or non-recurring costs. The capital asset reserve is intended for major renewals or replacements of capital assets. Forster explains: “As our community grows, so does our capital asset portfolio. Looking at the significance of the assets that will be coming online, we saw a need to set aside more reserves to maintain those assets into the future.”

The reserve policy was adopted as part of the 2021 budget. The outcome has been a better understanding of reserve funds, their purpose, and their importance, as well as improved financial resiliency and resources to address future capital maintenance and renewal needs. Council members and the public better understand reserve levels and policies, as changes were communicated through channels including budget briefs, workshops, presentations, and the regular community newsletter.

Forster noted that fund balances will be assessed as part of the annual audit, with a more comprehensive analysis to be conducted every three years.

**GFOA BEST PRACTICES**

The Town of Bluffton followed GFOA’s best practice, *Fund Balance Guidelines for General Fund*, which recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund, based on generally accepted accounting principles and the budgetary purpose of maintaining adequate levels of fund balance to mitigate current and future risks and to ensure stable tax rates.

The municipality also followed GFOA’s best practice, *Strategies for Establishing Capital Asset Renewal and Replacement Reserve Policies*, which guides governments in establishing a capital asset reserve that provides additional flexibility in a strong capital asset management program.

The combination of best practice guidance, risk assessment, and scholarly research gave Bluffton a comprehensive basis for examining fund reserves and creating a strong policy. In reflecting on what made the policy process unique, Forster said, “I’m not aware of any community that has used a disaster cost study like this one, to drive their fund balance policy.” He emphasized how important it was for Bluffton to heed the recommendation that each community needs to factor in its own particular needs and risks—advice that other communities can benefit from, as well.

Built in 1857, The Church of the Cross is one of Bluffton’s most notable landmarks.