

# Fiscal Approaches to Capital Projects – 22 Oct 2025

## Fund 189 & Bonding, Fund 101 & Operations, and Political Context



### Purpose

This issue paper clarifies the County’s financial position regarding Fund 189 (Capital Projects) and Fund 101 (General Fund – Operations). It reaffirms prior Commission decisions, explains why bonding can be more cost-effective than pay-as-you-go for major capital projects, and provides political context to support informed decision-making. It also addresses concerns of political gamesmanship that tends to distort public understanding of County finances and strategic planning.

### Background

During the FY 2024–25 budget discussions, the Commission considered reallocating pennies from local option sales tax revenue from Fund 189 to Fund 101 to address annual operating shortfalls. After careful deliberation—mindful of courthouse renovations and other infrastructure needs—the Commission chose to retain these pennies in Fund 189, preserving the County’s bonding capacity for capital projects. This capacity supports facility upgrades, capital equipment replacement, and critical infrastructure improvements without impacting Fund 101 operations or Fund Balance.

Some commissioners have argued that if the County “cannot afford” its annual operational costs, it certainly cannot afford an \$8.5 million bond for courthouse renovations. This line of argument, while rhetorically effective, ignores the distinction between operational and capital funds and is inconsistent with prior Commission decisions that intentionally preserved bonding capacity for major projects. Understanding these budgeting distinctions is a core responsibility of every county commissioner.

Other commissioners have expressed concern over using bonds to finance the proposed courthouse project, favoring a “pay-as-you-go” approach. While cash-conscious in appearance, this approach can carry hidden costs and risks that make bonding the more fiscally prudent strategy.

### Fund Distinctions and Operational Realities

To understand funding options, it is essential to distinguish the purposes of each fund:

Fund	Primary Revenue Source	Primary Uses	Key Notes
Fund 101 – General Fund (Operations)	Property tax and other recurring revenues	Salaries, benefits, insurance, fuel, utilities, routine maintenance, and general operating expenses	Operates on annual, recurring revenue. Recent shortfalls were addressed through a property tax increase. Separate from non-

# Fiscal Approaches to Capital Projects – 22 Oct 2025

## Fund 189 & Bonding, Fund 101 & Operations, and Political Context



Fund	Primary Revenue Source	Primary Uses	Key Notes
Fund 189 – Capital Projects Fund	Local option sales tax	One-time capital projects, including buildings, infrastructure, and large equipment; eligible for bonding	recurring capital projects or debt service from Fund 189. Legally and operationally restricted to capital purposes. Preserves bonding capacity for projects without impacting operations.

### Key Point:

Borrowing for non-recurring capital projects is a feasible and responsible option. Non-recurring operating expenses, however, must be cash-flowed through the General Fund. Revenues for Funds 189 and 101 are not commingled.

### **Why Bonding Can Be the More Conservative Option**

Bonding offers advantages that are often overlooked in pay-as-you-go scenarios:

#### **1. Inflation and Cost Escalation**

Construction costs are rising faster than current interest rates. A 20-year bond at a fixed 3.8% interest rate locks in today's construction and labor costs, protecting the County from future price increases.

- Counterpoint: Some may argue inflation could stabilize or paying cash avoids interest.
- Response: With construction inflation running at 5–7% annually, deferred spending is likely more expensive than fixed-rate borrowing.

#### **2. Mobilization and Efficiency Costs**

Phased, stop-and-start projects greatly increase mobilization and repeated setup costs. Continuous construction under a bonded project reduces waste, disruption, and contractor risk, thus lowering costs.

- Counterpoint: Critics state that incremental funding is fiscally “conservative.”
- Response: Fragmented phasing typically increases total cost due to inefficiencies and repeated mobilization.

#### **3. Economies of Scale**

Large projects attract more competitive bids and higher-quality contractors. Fragmented, smaller projects are less attractive and more costly.

- Counterpoint: Some may claim smaller projects are easier to manage.
- Response: Scale reduces total cost per unit and lowers overall risk.



## Fiscal Approaches to Capital Projects – 22 Oct 2025

### Fund 189 & Bonding, Fund 101 & Operations, and Political Context

#### 4. Intergenerational Fairness

Spreading costs ensures that both current and future beneficiaries contribute fairly. Paying entirely from current revenues shifts the burden disproportionately onto today's taxpayers.

- Counterpoint: Critics may worry about committing future commissions.
- Response: Fund 189 is legally dedicated to capital, and bond structures minimize future operational impact.

#### 5. Preservation of Cash Reserves

Bonding allows the County to maintain capital reserves and Fund Balance, protecting against unexpected revenue shortfalls or future emergencies.

- Counterpoint: Critics may worry about risk or long-term obligations.
- Response: Properly structured bonds are transparent, limited, and manageable.

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### Quantitative Analysis: Bonding vs. Pay-As-You-Go

Project Cost: \$8.5 million

Proposed Bond Term: 20 years, fixed 3.8% interest rate

Scenario	Approx. Total Cost	Notes
Bond Financing	\$8.5M principal + ~\$4.2M interest ≈ \$12.7M total	Predictable annual debt service (~\$610–615K/year), efficient continuous construction, preserves Fund Balance, locks in prices
Pay-As-You-Go	\$8.5M base + 5–7% annual cost escalation + repeated mobilization	Easily exceeds \$13M total, spread over multiple years, fragmented construction, higher risk of inflation and inefficiencies

Conclusion: Even when including interest, bonding is likely the more cost-efficient and lower-risk option. With construction inflation averaging 5–7% annually in recent years, an historically low, fixed 3.8% rate makes borrowing comparatively inexpensive and shields the County from rising construction costs.

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### Trade-Offs and Competing Capital Needs

While the \$8.5 million bond for courthouse renovations is necessary, committing this level of bonding capacity has consequences for other critical county projects. The County faces a range of pressing capital needs, including but not limited to:



## Fiscal Approaches to Capital Projects – 22 Oct 2025

Fund 189 & Bonding, Fund 101 & Operations, and Political Context

- Implementation of the County water study and potential infrastructure improvements
- Expansion and modernization of EMS facilities
- Maintenance or upgrades to other public buildings and essential infrastructure

Notably, every dollar allocated to the courthouse reduces the County’s bonding capacity to fund other priorities—that is the quintessential trade-off. This is why we developed a strategic plan and reached consensus in the prioritization of infrastructure needs.

The Commission must recognize that bonding decisions are not merely about immediate costs—they also shape the County’s capacity to address future needs efficiently and responsibly. Delaying or fragmenting other projects may result in higher costs, increased maintenance issues, or operational risks over time. The courthouse project, however, is at a point where deferral is no longer viable; failure to act now only compounds costs and risks.

**Key Point:** Responsible fiscal stewardship balances urgent, unavoidable projects with the County’s broader strategic plan. Using bonding strategically ensures that necessary projects proceed while preserving flexibility for other future investments.

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### Political Context and Communication Considerations

Some commissioners opposed the recent budget and property tax increase—an understandably popular stance. Yet with such opposition comes the obligation to identify substantive cuts or offer realistic alternatives to maintain county operations. No such plan was provided.

Building on this pattern, now that the County is moving forward with courthouse renovations, a similar group of commissioners opposes bonding and favors a minimal, stopgap approach. Such a strategy defers essential repairs, accelerates building deterioration, and ultimately shifts higher costs onto future taxpayers. This approach is politically expedient but antithetical to fiscal conservatism. Perpetual postponement is neglect, dressed up as principle.

Beyond specific projects, everyone agrees that elected officials have a duty to listen to the concerns of their constituents about how public funds are spent. Equally important is speaking plainly about facts, context, and the long-neglected state of our infrastructure. Pretending that a delay or half measure resolves critical needs is not leadership—it is *misleading*.

This issue reflects a broader challenge in governance: Our October 20 meeting highlighted a tendency among some to jockey for “most conservative” status. In public debate,

## Fiscal Approaches to Capital Projects – 22 Oct 2025

Fund 189 & Bonding, Fund 101 & Operations, and Political Context



conservatism is too often equated with a reflexive distrust of any government spending. Courting anti-spending applause lines is easy, but it is no substitute for responsible governance. Genuine conservatism demands 360-degree integrity: transparency about trade-offs, an honest reckoning with inflation and deferred maintenance, and the courage to act before problems become crises. The Commission's responsibility is to communicate financial and infrastructure realities clearly—not to echo slogans or leave the hard votes to others. Leadership is about making difficult choices today so that our successors—and our constituents—aren't left to face even harder ones tomorrow.

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### Summary of Key Points

1. **Fund 189 vs. Fund 101:** Fund 189 is dedicated to capital projects and is intentionally resourced to provide bonding capacity; Fund 101 must be funded to cover annual recurring operations.
  2. **Prior Commission Decisions:** Successive commissions have affirmed the fiscal prudence of resourcing Fund 189 to ensure bonding capacity.
  3. **Bonding vs. Pay-As-You-Go:** For large capital projects, bonding is likely cheaper, more efficient, and fairer than paying cash over time. It mitigates inflation, reduces mobilization costs, guards reserves, and leverages economies of scale.
  4. **Political and Communication Considerations:** Responsible fiscal stewardship requires explaining trade-offs, the cost of inaction, and long-term impacts, not simply appealing to short-term popularity.
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### Conclusion

The price of leadership is responsibility.  
The measure of conservatism is stewardship.  
The test of both is courage.

Respectfully,

G. S. Stowe  
Giles County Executive