

# Debt & Capital Update

## Funding Capital Needs While Maintaining AAA Ratings

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# Agenda

1. Background
2. Debt and Capital Model Update
3. Proposed Capital Funding Strategies FY2025-FY2031
4. Fall 2024 Referendum
5. Next Steps
6. Questions



# Background

# PAYGO (cash) and Debt are both used to fund capital

## PAYGO characteristics

- Commits current resources
- Immediate ownership
- Affordability easily determined

## Debt characteristics

- Commits resources over time
- Possible delayed ownership
- Affordability determined by financial modeling

# When to use PAYGO and Debt

## Use PAYGO for

- Smaller size & cost assets
- Shorter useful life & benefit
- Examples: technology; minor renovations; FF&E



## Use Debt for

- Larger size & cost assets
- Longer useful life & benefit
- Part of multi-year program
- Examples: Schools; County parks; County facilities



# Advantages to using Debt for large assets

- **Affordability**

- Lowers immediate tax burden required to fund major assets vs. PAYGO
- AAA bond ratings ensure lowest cost to finance

- **Flexibility**

- Current resources can address more priorities
- Payments spread out over time into the future

- **Intergenerational Equity**

- Major assets typically have significant useful life spanning decades
- Appropriate for multiple generations to pay a share over time

# Types of permanent Debt

## General Obligation Bonds (GO)

- Voter authorized; Board authorized
- 20-year repayment on avg.
- Lowest cost permanent debt
- Backed by full faith and credit and taxing authority of County
- Example: County parks

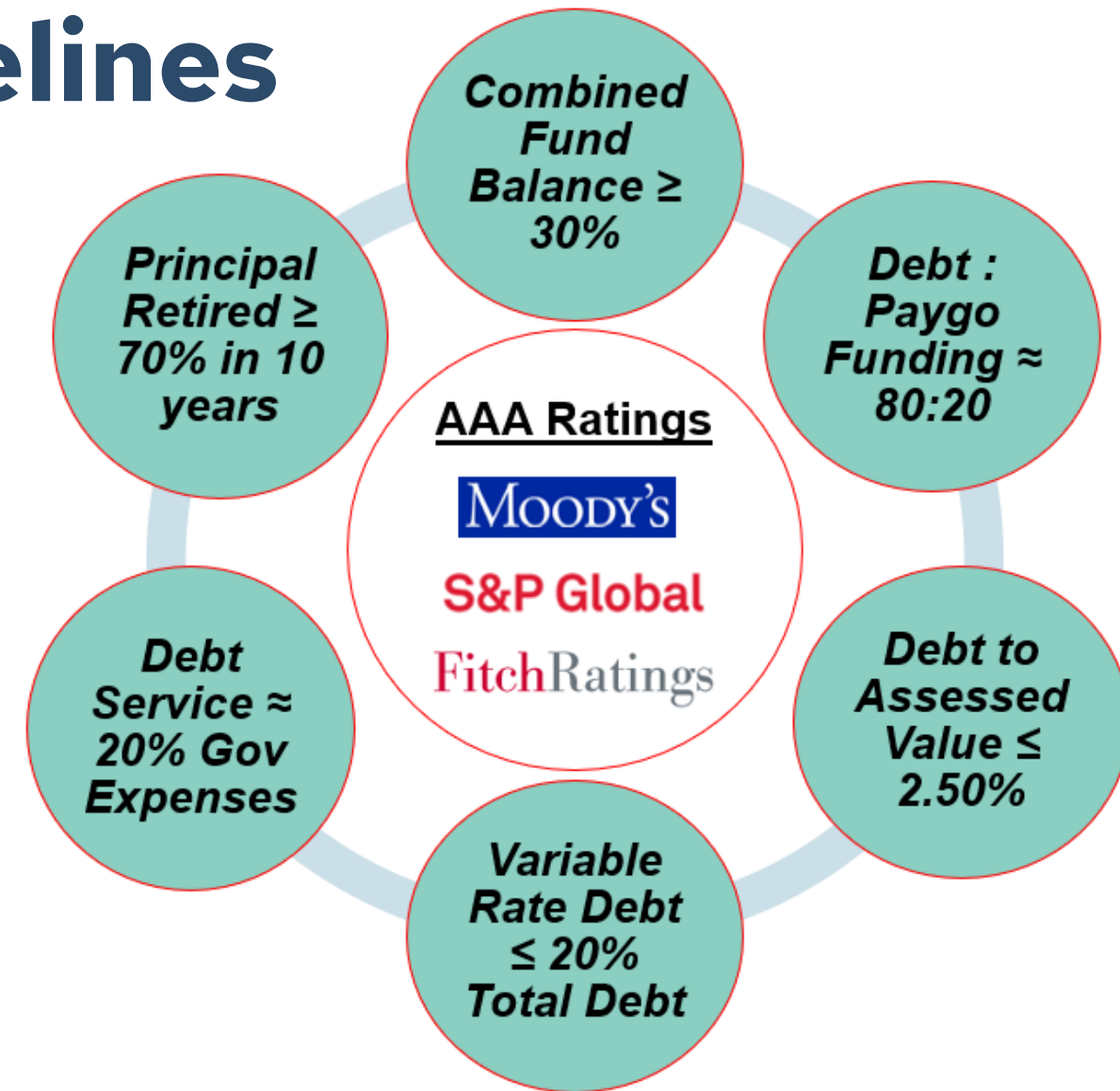
## Limited Obligation Bonds (LOBs)

- Board authorized
- 20-year repayment on avg.
- Slightly higher cost than GO
- Backed by asset(s); asset(s) being purchased or constructed pledged as collateral
- Example: WCJC building

# Debt policies & guidelines

## Integral to County's success

- Goal: maintain AAA ratings
- Rating agency criteria provides framework for County policy
- Clear bounds of operation for rolling 7-yr CIP development
- Policy & metrics frequently benchmarked against peer Counties





# How does County measure policy performance to ensure continued success?

- Through use of a long-term, comprehensive financial model (i.e., “Debt & Capital Model”; “Debt Model”; or “the Model”)
- Debt Model monitored and maintained in close partnership with County’s Financial Advisor, First Tryon Advisors (Charlotte, NC)





# Debt & Capital Model Update

# Debt & Capital Model – what is it?

- **Excel based financial tool utilized for complex analysis**
  - Utilize throughout year to guide and inform (i.e., during debt issuances; development of rolling 7-year CIP; sizing of future bond programs; etc.)
  - Determine viability & affordability during capital planning
  - Understand current & future tax impacts in various capital funding scenarios
  - Know the opportunity costs of certain capital funding scenarios
  - Measure current and anticipated future performance of key policy metrics
  - Ensure AAA ratings are maintained
- **Includes base assumptions which are monitored and adjusted annually as necessary**
- **Ongoing update of Model inputs through year**
  - Annual budget development; completion of Annual Report; debt issuances

# Revenue assumption changes in Model

Prior - FY2024 Budget Development	FY2024	FY2025*	FY2026	FY2027	FY2028	FY2029*	FY2030	FY2031
Property Tax Rate - Total (¢ per \$100 value)	62.95	57.72	58.32	58.32	58.32	53.06	53.06	Outside of FY24- FY30 CIP
Property Tax Rate - Dedicated for Capital	19.78	18.14	18.74	18.74	18.74	17.05	17.05	
Property Tax Valuation Growth	2.00%	12.00%	2.00%	2.00%	2.00%	12.00%	2.00%	
Property Tax Collection	99.75%	99.65%	99.65%	99.65%	99.65%	99.65%	99.65%	
Sales Tax Growth	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Investment Earnings	4.25%	3.25%	2.50%	2.50%	2.50%	2.50%	2.50%	
Tax Increase - Dedicated for Capital	1.0¢ for WCPSS & WTCC 2022 bond		.60¢ for County 2024 bond					

*\*revaluation yr*

*\*revaluation yr*

Current - FY2025 Budget Development	FY2024	FY2025*	FY2026	FY2027	FY2028	FY2029*	FY2030	FY2031
Property Tax Rate - Total (¢ per \$100 value)	65.70	46.43	46.68	46.68	46.68	42.51	42.51	42.51
Property Tax Rate - Dedicated for Capital	19.78	13.98	14.23	14.23	14.23	12.96	12.96	12.96
Property Tax Valuation Growth	2.00%	47.77%	2.00%	2.00%	2.00%	12.00%	2.00%	2.00%
Property Tax Collection	99.75%	99.75%	99.65%	99.65%	99.65%	99.65%	99.65%	99.65%
Sales Tax Growth	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Investment Earnings	4.25%	4.00%	3.25%	2.50%	2.50%	2.50%	2.50%	2.50%
Tax Increase - Dedicated for Capital	1.0¢ for WCPSS & WTCC 2022 bond		.25¢ for County 2024 bond		TBD for Anticipated 2026 bonds			

*\*revaluation yr*

*\*revaluation yr*

# Expenditure assumption changes in Model

Prior - FY2024 Budget Development	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
GO Draw Prog - Variable Rate (Short term debt)	4.06%	3.27%	2.48%	2.48%	2.48%	2.48%	2.48%	Outside of FY24- FY30 CIP
GO Bonds - Fixed Rate (Long term debt)	4.75%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
GO Bonds - Amortization Term (Yrs)	19	19	19	19	19	19	19	
LOBs Draw Prog - Variable Rate (Short term debt)	4.06%	3.27%	2.48%	2.48%	2.48%	2.48%	2.48%	
LOBs - Fixed Rate (Long term debt)	5.00%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	
LOBs - Amortization Term (Yrs)	19	19	19	19	19	19	19	

Current - FY2025 Budget Development	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
GO Draw Prog - Variable Rate (Short term debt)	4.06%	3.86%	3.27%	2.48%	2.48%	2.48%	2.48%	2.48%
GO Bonds - Fixed Rate (Long term debt)	4.25%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
GO Bonds - Amortization Term (Yrs)	19	19	19	19	19	19	19	19
LOBs Draw Prog - Variable Rate (Short term debt)	4.06%	3.86%	3.27%	2.48%	2.48%	2.48%	2.48%	2.48%
LOBs - Fixed Rate (Long term debt)	4.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
LOBs - Amortization Term (Yrs)	19	19	19	19	19	19	19	19

*Changes noted in Red*

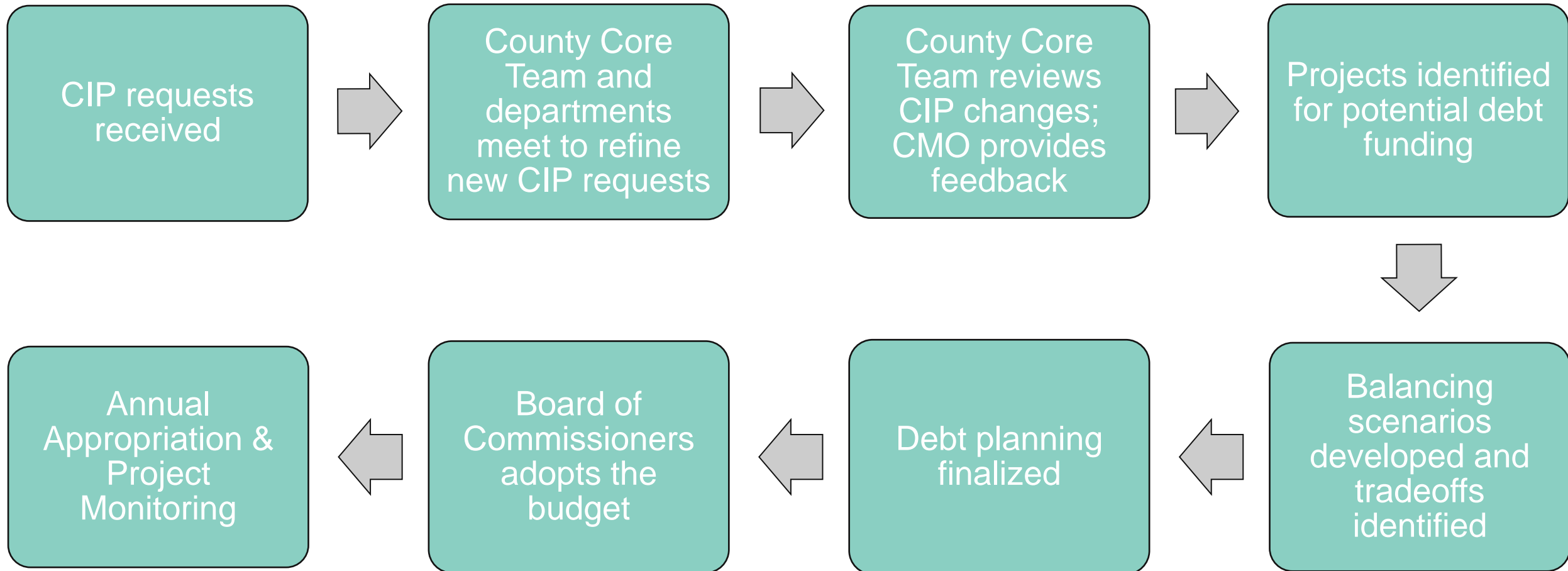


# **Proposed Capital Funding Strategies FY2025-FY2031**

# Proposed WCPSS & WTCC capital funding

- **WCPSS proposed capital funding \$2.8 billion**
  - Joint Facilities CORE Team reached consensus on Proposed 7-yr CIP
  - Proposed 7-yr CIP continues through due process validation at WCPSS
  - Current projected 2026 bond at \$702.9 million (2-yr funding)
  - Tax impact of current projected 2026 bond is TBD
- **WTCC proposed capital funding \$419.4 million**
  - Current projected 2026 bond at \$133.4 million (4-yr funding)
  - Tax impact of current projected 2026 bond is TBD

# Annual development of proposed County capital funding





# Proposed County capital funding

- **Libraries**

- Projected \$142 million bond referendum in fall 2024 (6-year bond)
- Per direction of Board at 3/11/24 work session
- Projected tax impact of 2024 bond is .25¢ (to be levied FY2026)
- Projected first debt to be issued under 2024 bond is FY2026

- **PGROS**

- Projects continue to be completed under authorized 2018 referendum
- Updated Debt Model shows \$75 million unassigned future debt capacity
- Capacity could be purposed toward new PGROS bond referenda in fall 2026

- **Human Services Master Plan**

- Projected funding \$34.8 million

- **EMS Master Plan**
  - Projected funding \$82.6 million
    - Debt funding \$55.1 million
    - PAYGO funding \$27.5 million
- **Other Planned County Facilities**
  - Hammond Rd Annex Renovation \$12 million
  - Detention Center Expansion \$152 million
  - Animal Control Shelter \$45 million
  - Decedent Storage Facility \$29 million
  - GSA Facility \$75 million (\*sale of existing property to offset debt issued)
- **Fire Tax Master Plan (\*supported by dedicated Fire Tax)**
  - Projected PAYGO funding \$25.9 million
  - Projected debt funding \$60.2 million
    - Fire Stations \$38.3 million
    - Fire Trucks \$21.9 million

**Capital Program:****DEBT**

	2025	2026	2027	2028	2029	2030	2031
WCPSS	231,256,000	352,716,623	355,619,567	351,599,501	351,379,983	351,101,462	357,400,510
WTCC	90,020,000	86,610,000	86,365,000	31,310,000	32,510,000	34,785,000	34,785,000
PGROS	9,960,000	31,655,000					
Library (\$142m bond in 2024)		9,862,000	43,056,000	16,719,000	19,282,000	18,437,000	34,644,000
Future Debt Capacity (\$75m)				45,000,000		30,000,000	
Other County Facilities	11,500,000	99,000,000	157,706,000	23,850,000	12,370,000	15,684,000	
Fire Tax Supported Debt	2,925,914	14,831,338		12,177,880	14,725,776	11,264,667	4,261,231
DEBT Total	\$ 345,661,914	\$ 594,674,961	\$ 642,746,567	\$ 480,656,381	\$ 430,267,759	\$ 461,272,129	\$ 431,090,741

**PAYGO**

WCPSS	67,800,000	60,120,000	62,248,000	64,419,000	66,647,013	68,646,423	70,705,816
WTCC	7,500,000	7,500,000	8,000,000				
Human Services	24,726,000	11,757,000	6,411,000	400,000	893,000	10,406,000	838,000
Other County CIP	66,249,000	77,243,000	64,784,000	54,434,000	55,677,000	54,769,000	55,866,000
PAYGO Total	\$ 166,275,000	\$ 156,620,000	\$ 141,443,000	\$ 119,253,000	\$ 123,217,013	\$ 133,821,423	\$ 127,409,816

**TOTAL FUNDING**

\$ 511,936,914	\$ 751,294,961	\$ 784,189,567	\$ 599,909,381	\$ 553,484,772	\$ 595,093,552	\$ 558,500,557
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**Tax Increase for Capital****.25 ¢****TBD**

**To Support 2024  
Library Bond of  
\$142 million**

**To Support 2026  
Proposed Bonds**

Legend:

Prior 2022 WCPSS Bond

Future 2-yr WCPSS Bond

Prior 2022 WTCC Bond

Future 4-yr WTCC Bond

Prior 2018 PGROS Bond

Future 6-yr Library Bond

# Policy measures remain at desired levels

Prior - FY2024 Budget Development	Goal	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Fund Balance Ratio	$\geq 30\%$	37.1%	36.2%	36.4%	36.5%	35.1%	33.6%	31.5%	Outside of FY24- FY30 CIP
% Debt Paid in 10 Years	$\geq 70\%$	71%	70%	70%	71%	72%	73%	74%	
Debt Ratio for Capital Funding	Strive for 80%	75%	77%	82%	78%	73%	77%	75%	
Debt / Assessed Value Ratio	$\leq 1.75\%$	1.36%	1.38%	1.45%	1.49%	1.54%	1.44%	1.41%	
Debt Service as % Total Expenditures	Strive for $\leq 20\%$	18%	18%	18%	18%	19%	20%	21%	

Current - FY2025 Budget Development	Goal	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Fund Balance Ratio	$\geq 30\%$	39.9%	37.9%	36.5%	37.6%	37.8%	36.6%	34.4%	32.1%
% Debt Paid in 10 Years	$\geq 70\%$	72%	71%	70%	71%	71%	72%	72%	73%
Debt Ratio for Capital Funding	Strive for 80%	77%	68%	80%	81%	81%	77%	77%	77%
Debt / Assessed Value Ratio	$\leq 1.75\%$	1.25%	0.98%	1.05%	1.13%	1.20%	1.12%	1.12%	1.11%
Debt Service as % Total Expenditures	Strive for $\leq 20\%$	17%	17%	17%	17%	19%	20%	20%	21%



# Fall 2024 Referendum

# Takeaways from March 11 work session

## Priority Library projects:

- Renovations
- Athens Drive (replacement)
- Wendell (replacement)
- Rolesville (new); to include Peace & Justice Memorial
- Fuquay-Varina (expansion)
- Friendship (new)
- TBD (new)

Pursue fall 2024  
Library bond totaling

**\$142m**

# Required steps for bond referendum

April 30	BOC direction to staff of final Referendum amount
May	BOC adopts preliminary findings resolution; authorizes notice of publication to file application with LGC
	Publication of notice of intent to file an application with LGC
June	Application filed with LGC
	BOC introduces bond order; files Sworn Statements of Debt and Estimated Interest with Board Clerk; sets referendum date
	Publication of first notice of referendum and notice of public hearing
July	BOC conducts public hearing regarding bond order; adopts bond order; adopts resolution calling for referendum
	Certified copy of resolution calling for referendum is delivered to Board of Elections
	Publication of second notice of referendum
November 5	Referendum
December	BOC adopts declaration of results of referendum
	Publication of statement of results of referendum



# Next Steps



# Notable dates regarding Debt & Capital

- **Today**
  - Board feedback to staff
- **May 6**
  - Manager presents recommended FY2025 budget
- **May 13 Work Session or May 23 Work Session**
  - Additional feedback and detail on recommended FY2025-FY2031 CIP
- **June 3**
  - Board adoption of FY2025 budget and FY2025-FY2031 CIP



# Questions



# Appendix

# Debt policies and guidelines

- **Fund balance minimum**

- Combined fund balance of County's General Fund and Debt Service Fund will equal at least 30% of current fiscal year revenues
- Answers the Question: How much cash liquidity should County maintain?
- Can weather the unknown – drop in Revenues or increase in Expenses
- Can continue to meet obligations early in the Fiscal Year prior to County receiving majority of property tax revenues (Nov-Dec)

# Debt policies and guidelines

- **Total debt maximum**
  - County will manage its debt to no more than 2.5% of total assessed valuation
  - Answers the Question: What should be maximum debt load of County?
  - Ensures citizens are not faced with undo tax burden
  - Actively manage to stricter 1.75% threshold

# Debt policies and guidelines

- **Debt repayment minimum**
  - County will maintain repayment of 70% of its outstanding debt within 10 years
  - Answers the Question: To what extent is timely debt repayment a priority of the County?
  - Currently model for 19-year amortization of bonds
  - Issue debt with level principal repayment structure
  - Allows for acceleration of payoff and minimizes interest costs

# Debt policies and guidelines

- **Variable rate debt maximum**
  - County's variable rate debt will not exceed 20% of its total debt portfolio
  - Answers the Question: What is County's comfort level for variable rate risk exposure?
  - Mitigates risk inherent with variable rate debt which is subject to market fluctuation
  - Ensures taxpayers do not pay disproportionate amount of variable rate interest costs

# Debt policies and guidelines

- **Desired debt service maximum**
  - County strives to cap its debt service expense to 20% or less of total Gov expenditures
  - Answers the Question: How much of County resources are committed to debt service?
  - Ensures County not burdened with massive debt service relative to total expenditures
  - Ensures judicious and appropriate use of debt as a tool to fund major capital needs



# Debt policies and guidelines

- **Desired Debt / PAYGO (cash) funding ratio for capital**
  - County strives to maintain an 80/20 ratio of debt/cash funding for its major capital needs
  - Answers the Question: What is optimal ratio of debt/cash funding for capital?
  - Maintaining cash provides flexibility and helps prop up other policy metrics (fund balance)
  - Helps manage debt loads by committing cash funding to certain appropriate capital needs

# Debt policies and guidelines

- **Timing of capital project appropriation for WCPSS & WTCC**
  - County will appropriate debt for WCPSS & WTCC capital projects only after debt proceeds have been secured
  - Answers the Question: When is the optimal timing to allow project spending to begin in debt funded capital projects of WCPSS & WTCC?
  - Protects against unnecessary draining of cash balances early in the Fiscal Year when liquidity is needed prior to County receiving majority of property tax revenues (Nov-Dec)
  - Should a market correction occur within the debt market, thus delaying the timing of a debt sale, County would be protected against prolonged and sizeable unreimbursed expenditures

# Debt policies and guidelines

- **Use of construction financing**
  - i.e., “Draw Programs”; “Bond Anticipation Notes”; “BANs”
  - County will utilize short-term construction financings as the initial, temporary funding source for capital needs of WCPSS and WTCC, so long as such construction financing tools are market-available to County and so long as benefits and advantages persist in County’s use of such construction financing tools
  - Answers the Question: Is County maximizing use of available short-term debt instruments for its benefit?
  - Near-term debt service costs are reduced thereby delaying and/or minimizing necessary tax increases; allows debt service to be commensurate to project spending in early years of major projects; helps County better mitigate potential for arbitrage on bond proceeds



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