

Debt and Capital Update

Meeting Growing Capital Needs
While Maintaining AAA Ratings



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Agenda

- 1. Background**
- 2. Debt and Capital Model Update**
- 3. Proposed Capital Funding Strategies FY23-FY29**
- 4. Fall 2022 Referenda Considerations**
- 5. Questions**



Background

PAYGO (cash) and Debt are used to fund capital needs

PAYGO

- Commits current resources
- Immediate ownership
- Affordability is easily determined

Debt

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

Which is better? It depends on size, cost, and useful life...

PAYGO

- ✓ Smaller size and cost
- ✓ Short useful life and benefit
- ✓ Examples include technology, minor renovations, and FF&E



Debt

- ✓ Significant size and cost
- ✓ Long useful life and benefit
- ✓ Part of multi-year program
- ✓ Examples include schools, parks, and major facilities



Debt Offers Advantages for Major Assets

Affordability

- Lower immediate tax burden required to fund major assets with debt vs. Paygo
- AAA bond ratings ensure lowest cost of financing

Flexibility

- Current resources (property tax and sales tax) can address more priorities by spreading payments over time

Intergenerational Equity

- Multiple generations that benefit from an asset each pay a share over time

Types of Debt Issued by County

General Obligation Bonds (“GO”)

- Voter authorized; then Board authorized
- Permanent and long-term (i.e., 20 years)
- Lowest bond rates
- Backed by full faith and credit and taxing authority of County

Example: Parks Projects

Limited Obligation Bonds (“LOBs”)

- Board authorized
- Permanent and long-term (i.e., 20 years)
- Slightly higher bond rates than GO
- Backed by Assets pledged as collateral

Example: WCJC Building

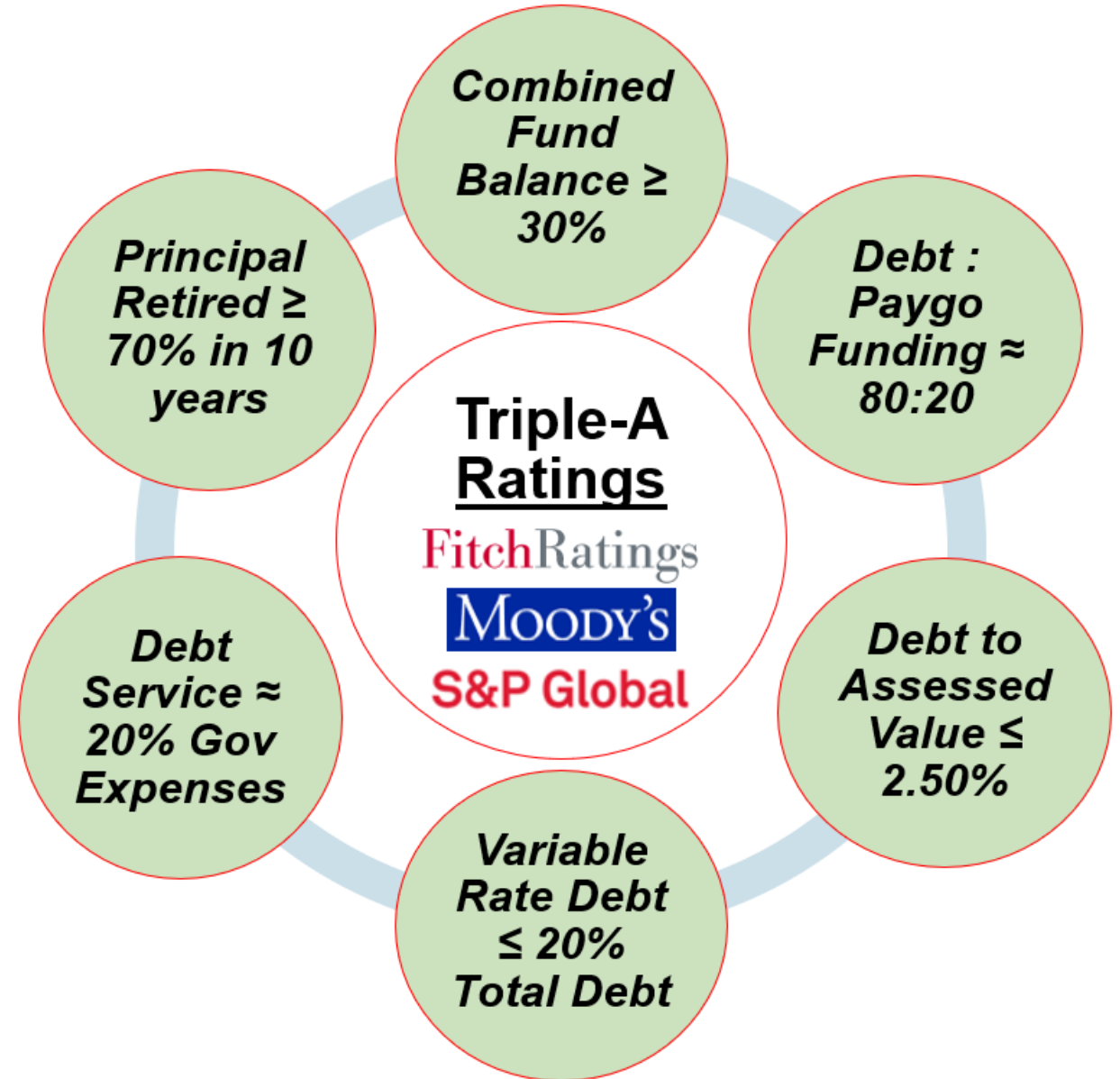
Draw Programs (“BANs”)

- Board authorized
- Temporary and short-term, used during construction (i.e., 4 years)
- Lower rates than GO or LOBs
- Periodic “take out” of drawn balances with GO or LOBs

Example: Schools

Debt Policies & Guidelines Drive Capital Planning

- Established due to County's growing capital needs
- Established and revised using triple-A guidelines of the Rating Agencies
- Frequently benchmarked to peer triple-A rated governments
- County's 7-yr Capital Plan is developed around these policies and guidelines



**additional information on policies and guidelines included in Appendix*



Debt and Capital Model Update

Debt and Capital Model Background

- Integral financial tool for analysis
 - Affordability of capital planning given current resources
 - Level and timing of property tax impact
 - Opportunity cost of certain capital funding decisions
 - Ensure triple-A ratings are protected with key metrics
- Includes base assumptions; monitored and adjusted minimum 1x/year or as necessary
- Ongoing update of Model inputs throughout year (i.e., annual budget process; closing of debt transactions; completion of Annual Report)

Revenue Assumption Changes*

At 6/30/21	FY2022	FY2023	FY2024	FY2025*	FY2026	FY2027	FY2028
Property Tax Rate - Total (¢ per \$100 value)	60.00	60.00	62.00	56.33	56.63	56.63	56.63
Property Tax Rate - Dedicated for Capital	18.57	18.57	20.57	18.69	18.99	18.99	18.99
Property Tax Valuation Growth	1.28%	2.00%	2.00%	12.00%	2.00%	2.00%	2.00%
Property Tax Collection	99.25%	99.50%	99.65%	99.65%	99.65%	99.65%	99.65%
Sales Tax Growth	2.50%	2.75%	3.00%	3.00%	3.00%	3.00%	3.00%
Investment Growth	0.10%	0.50%	1.00%	1.50%	2.00%	2.00%	2.00%
Property Tax Increase - Dedicated for Capital			2.0¢ for WCPSS / WTCC		.30¢ for County		

*revaluation yr

At Retreat 4/4/22	FY2022	FY2023	FY2024	FY2025*	FY2026	FY2027	FY2028	FY2029*
Property Tax Rate - Total (¢ per \$100 value)	60.00	60.00	61.00	55.76	56.06	56.06	56.06	51.00
Property Tax Rate - Dedicated for Capital	18.57	18.57	19.57	17.89	18.19	18.19	18.19	16.55
Property Tax Valuation Growth	2.30%	2.83%	2.00%	12.00%	2.00%	2.00%	2.00%	12.00%
Property Tax Collection	99.75%	99.50%	99.65%	99.65%	99.65%	99.65%	99.65%	99.65%
Sales Tax Growth	15.50%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Investment Growth	0.10%	0.50%	1.00%	1.50%	2.00%	2.00%	2.00%	2.00%
Property Tax Increase - Dedicated for Capital			1.0¢ for WCPSS / WTCC		.30¢ for County			

*revaluation yr

*revaluation yr

Changes noted in Red

Expense Assumption Changes*

At 6/30/21	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
GO Draw Prog - Variable Rate (Short term debt)	1.16%	1.55%	1.95%	2.34%	2.34%	2.34%	2.34%
GO Bonds - Fixed Rate (Long term debt)	2.50%	3.00%	3.50%	4.00%	4.00%	4.00%	4.00%
GO Bonds - Amortization Term (Yrs)	19	19	19	19	19	19	19
LOBs Draw Prog - Variable Rate (Short term debt)	1.16%	1.55%	1.95%	2.34%	2.34%	2.34%	2.34%
LOBs - Fixed Rate (Long term debt)	2.75%	3.25%	3.75%	4.25%	4.25%	4.25%	4.25%
LOBs - Amortization Term (Yrs)	19	19	19	19	19	19	19

At Retreat 4/4/22	FY2022	FY2023	FY2024	FY2025*	FY2026	FY2027	FY2028	FY2029
GO Draw Prog - Variable Rate (Short term debt)	1.16%	1.75%	1.95%	2.34%	2.34%	2.34%	2.34%	2.34%
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GO Bonds - Amortization Term (Yrs)	19	19	19	19	19	19	19	19
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LOBs - Fixed Rate (Long term debt)	2.75%	3.50%	3.75%	4.25%	4.25%	4.25%	4.25%	4.25%
LOBs - Amortization Term (Yrs)	19	19	19	19	19	19	19	19

Changes noted in Red



Proposed Capital Funding Strategies FY23 - FY29

WCPSS and WTCC Capital - Proposed Funding

WCPSS proposed updated 7-yr rolling CIP \$2.635 billion

- Joint Facilities CORE Team reached consensus on 7-yr CIP funding recommendation
- 7-yr CIP funding recommendation continues through validation process at WCPSS
- Current 2022 Bond size estimate \$530.7 million (2-yr: projects in FY24 and FY25)

WTCC updated 7-yr rolling CIP \$670.9 million

- Net increase over current 7-yr rolling CIP of \$11.8 million
- Current 2022 Bond size \$353.2 million (4-yr: projects in FY24 through FY27)

Tax Increase to support 2022 Referenda of WCPSS and WTCC reduced from prior estimated 2.0¢ to 1.0¢ in FY2024

County Capital - Proposed Funding

Libraries

- \$75 million GO bond funding beginning in FY26 (unchanged from prior)

Human Services Master Plan

- Reflects updated needs of \$143.6 million for multiple projects funded with cash and LOBs over 7-year plan
- Other revenue sources identified to potentially address funding gap for Public Health Center due to change in scope and cost escalation
 - \$ 30.0 million – recommended cash funding from FY21 positive fund balance
 - \$ 6.5 million – components of Public Health Center eligible for ARPA funding

Other Large County Projects Remain Debt Funded

- Library Administration; Animal Control Shelter; Criminal Justice
- \$66 million LOBS funding of large County projects over 7-yr plan

Proposed Capital Funding in the Model

(in 000's)

Capital Program:

	2023	2024	2025	2026	2027	2028	2029
DEBT							
WCPSS	294,951,000	299,444,000	231,256,000	326,128,000	333,175,000	328,967,000	340,289,000
WTCC	83,997,000	90,205,000	89,955,000	86,810,000	86,230,000	89,390,000	89,240,000
PGROS	23,500,000	21,200,000	9,960,000	20,570,000	4,360,000		
Libraries				2,940,000	18,545,000	19,755,000	13,875,000
Human Services (LOBs)	60,700,000	18,300,000	15,500,000				7,000,000
Other County CIP (LOBs)		19,200,000	33,300,000			13,552,000	
Future County Debt (TBD)				60,000,000			
DEBT Total	\$ 463,148,000	\$ 448,349,000	\$ 379,971,000	\$ 496,448,000	\$ 442,310,000	\$ 451,664,000	\$ 450,404,000
PAYGO							
WCPSS	53,648,000	66,104,000	67,800,000	70,120,000	72,248,000	74,419,000	76,648,000
WTCC	7,500,000	7,550,000	7,500,000	7,500,000	8,000,000	8,500,000	8,500,000
Human Services	700,000	600,000		600,000	2,500,000	700,000	400,000
Other County CIP	40,378,000	41,925,000	43,044,000	43,917,000	44,813,000	45,711,000	46,667,000
PAYGO Total	\$ 102,226,000	\$ 116,179,000	\$ 118,344,000	\$ 122,137,000	\$ 127,561,000	\$ 129,330,000	\$ 132,215,000
TOTAL FUNDING	\$ 565,374,000	\$ 564,528,000	\$ 498,315,000	\$ 618,585,000	\$ 569,871,000	\$ 580,994,000	\$ 582,619,000
Estimated Tax Levy:		1.00 ¢		.30 ¢			
To Support:		WCPSS & WTCC		County			



Prior 2018 Bond funding

Future 4-yr Bond funding

Future 2-yr Bond funding

Future 6-yr Bond funding

Debt Policies and Guidelines Remain at Desired Levels

At 6/30/21	Goal	2022	2023	2024	2025	2026	2027	2028
Fund Balance Ratio	≥ 30%	35.9%	34.4%	33.3%	32.2%	32.6%	33.8%	33.8%
% Debt Paid in 10 Years	≥ 70%	72%	70%	70%	70%	71%	72%	73%
Debt / Capital Ratio	Strive for 80 / 20	76%	81%	80%	79%	80%	76%	77%
Debt / Assessed Value Ratio	≤ 1.75%	1.31%	1.46%	1.52%	1.43%	1.47%	1.53%	1.56%
Debt Service as % Total Expenditures	Strive for ≤ 20%	18%	18%	20%	20%	19%	19%	20%

At BOC Retreat 4/4/22	Goal	2022	2023	2024	2025	2026	2027	2028	2029
Fund Balance Ratio	≥ 30%	34.1%	34.1%	33.3%	31.8%	32.7%	34.1%	34.7%	34.1%
% Debt Paid in 10 Years	≥ 70%	72%	70%	70%	70%	71%	72%	73%	73%
Debt / Capital Ratio	Strive for 80 / 20	78%	81%	79%	77%	80%	78%	78%	77%
Debt / Assessed Value Ratio	≤ 1.75%	1.28%	1.40%	1.46%	1.39%	1.43%	1.46%	1.52%	1.43%
Debt Service as % Total Expenditures	Strive for ≤ 20%	17%	18%	19%	20%	19%	19%	19%	20%



Fall 2022 Referenda Considerations

Current GO Bond Strategy

- Pursue GO referenda and voter authorization when:
 - Current capacity is insufficient to support debt of associated bond projects
 - Future tax increase is required to support debt of associated bond projects
- WCPSS currently on 2-yr bond cycle
- WTCC currently on 4-yr bond cycle
- PGROS and Libraries funded based on respective approved Master Plans
- Estimated tax impacts are calculated separately by purpose

Proposed 2022 Bonds	Purpose	Amount	For Bond Projects	FY24 Tax Increase
	WCPSS	\$530.7 million	2-years of projects (FY24 to FY25)	.60¢
	WTCC	\$353.2 million	4-years of projects (FY24 to FY27)	.40¢
	Total	\$883.9 million		1.00¢

Proposed 2022 Bonds – Citizen Tax Impact

- 1.0¢ Tax Increase = Costs \$10 for each \$100k of Assessed Value
- Average Wake County Home Assessed Value in 2021 = \$337,000
- Impact of 1.0¢ Tax Increase on Annual Taxes for Average Wake County Home in 2021 = \$33.70

1.0¢ Increase on 2021 Average Home Assessed Value \$337,000			
	<u>Nov 2022 Bond Amounts</u>	<u>Allocation of Tax Levy</u>	<u>Allocation of Tax Impact</u>
Schools	\$530,700,000	60%	\$20.23
Wake Tech	\$353,200,000	40%	\$13.47
Tax Impact on \$337,000 Valued Home			\$33.70

Assumed Future Referenda Timing

Ballot Purpose & Ballot Timing		Nov 2022	Nov 2023	Nov 2024	Nov 2025	Nov 2026	Nov 2027	Nov 2028
WCPSS	For Projects ✓ in FY24-FY25			*To Issue LOBs For Projects in FY26-FY27		For Projects ✓ in FY28-FY29		
WTCC	For Projects ✓ in FY24-FY27					For Projects ✓ in FY28-FY31		
County Libraries				For Projects ✓ in FY26-FY31				
Future County Debt - TBD				For Projects ✓ in FY26-FY31				
Total Ballot Questions		2		2		2		

**County currently anticipates WCPSS projects in FY26-FY27 to be funded with LOBs, as a corresponding tax increase will not be needed given current Debt Model assumptions. As such, a November 2024 referendum for WCPSS is not planned.*

Related Tax Increase

1.0 ¢ in FY24	.30 ¢ in FY26	TBD in FY28
Bonds for Education	Bonds for County	Bonds for Education

2022 Referenda Deadlines

By May 18	Board of Education adopts 7-yr CIP; Board of Education adopts Resolution requesting BOC holds a Fall 2022 referendum for certain public Schools FY24-FY25 capital needs; BOC decides to pursue Fall 2022 referendum for each WCPSS and WTCC
June 6	BOC adopts preliminary findings resolution; authorizes notice of publication to file application with LGC
June 9	Publication of notice of intent to file an application with LGC
June 20	Application filed with LGC
June 21	BOC introduces bond order; files Sworn Statements of Debt and Estimated Interest with Board Clerk; sets referendum date
June 25	Publication of first notice of referendum and notice of public hearing
July 11	BOC conducts public hearing regarding bond order; adopts bond order; adopts resolution calling for referendum
July 14	Certified copy of resolution calling for referendum is delivered to Board of Elections
July 22	Publication of second notice of referendum
November 8	Referendum
December 5	BOC adopts declaration of results of referendum
December 9	Publication of statement of results of referendum

Summary - Proposed 2022 Referenda

- Model continues to reflect County's need for 2022 Referenda to support future capital needs of WCPSS and WTCC
- 1.0¢ tax increase in FY24 to support proposed 2022 Referenda for education purposes
- WCPSS proposed Fall 2022 bond amount of \$530.7 million
 - Allocation of 1.0¢ = .60¢
 - Funds 2 years of projects (FY24 through FY25)
 - Supports proposed draft rolling 7-yr CIP (FY23-FY29) total of \$2.64 billion
 - Additional detail to be provided by WCPSS Staff at BOC Work Session on May 9
- WTCC proposed Fall 2022 bond amount of \$353.2 million
 - Allocation of 1.0¢ = .40¢
 - Funds 4 years of projects (FY24 through FY27)
 - Supports rolling 7-yr CIP (FY23-FY29) total of \$670.9 million
 - Additional detail was provided in WTCC presentation at BOC Education Committee Meeting on March 21
- By May 18 BOC directs County staff to pursue Fall 2022 Referenda



Questions



Appendix

Debt Policies and Guidelines

Fund Balance Level

- Combined fund balance of County's General Fund and Debt Service Fund will equal at least 30% of combined 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)

Total Debt Level

- 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 Timing

- County will maintain repayment of 70% of its outstanding debt within 10 years
- Answers the Question: *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

Variable Rate Debt Level

- 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

Debt Service Expense Level

- 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 / Cash Ratio for Capital Funding

- 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 for capital funding?*
- 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

Capital Project Appropriation Timing

- County will appropriate debt-funded projects only after debt proceeds have been secured
- Answers the Question: *When is optimal timing to begin major capital project spending?*
- 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

Construction Financings (“Draw Programs”; “Bond Anticipation Notes”; “BANs”)

- County will utilize to fund major capital of Schools & WTech so long as advantages remain
- Answers the Question: *Is County maximizing available short-term debt instruments for its benefit?*
- Near-term debt service costs are reduced; debt service costs commensurate to project spending levels in first 4 years of projects; helps minimize necessary tax increases for debt and capital

Prior County Referenda Results

Referendum	Purpose	Bond (\$ millions)	Tax Increase (cents)	% Voter Approval	% Turnout of Registered
1993 June	Libraries	10	-	56%	19%
	Parks	10	-	51%	
	Wake Tech	30	-	51%	
	Schools	200	-	56%	
1996 June	Schools	250	-	79%	14%
1999 June	Schools	650	13.00	35%	25%
2000 November	Open Space	15	-	77%	69%
	Public Safety	20	-	58%	
	Schools	500	-	78%	
2003 October	Libraries	35	-	68%	21%
	Schools	450	-	64%	
2004 November	Open Space	26	-	74%	78%
	Wake Tech	40	-	75%	
2006 November	Schools	970	2.70	53%	41%
2007 October	Libraries	45	0.30	70%	11%
	Open Space	50	0.30	71%	
	Wake Tech	92	0.75	68%	
2012 November	Wake Tech	200	-	73%	75%
2013 October	Schools	810	4.40	58%	15%
2016 November	1/2 ¢ Sales Tax -Transit			53%	75%
2018 November	Schools	548	2.30	67%	57%
	Wake Tech	349	1.15	65%	
	PGROS	120	0.35	68%	

Proposed 2022 Ballot Verbiage – Schools

Shall the order adopted on November 8, 2022, authorizing SCHOOL BONDS of the County of Wake, North Carolina in an amount not to exceed \$530,700,000 plus interest, for the purpose of providing funds, together with any other available funds, to construct, renovate, expand, improve and equip school buildings and other school facilities in said County, including the acquisition of land, easements and rights-of-way in connection therewith, and providing that additional taxes may be levied in an amount sufficient to pay the principal of and interest on the Bonds be approved?

Proposed 2022 Ballot Verbiage – Wake Tech

Shall the order adopted on November 8, 2022, authorizing COMMUNITY COLLEGE BONDS of the County of Wake, North Carolina in an amount not to exceed \$353,200,000 plus interest, for the purpose of providing funds, together with any other available funds, to construct, renovate, expand, improve and equip community college facilities for Wake Technical Community College, including the acquisition of land, easements and rights-of-way in connection therewith, and providing that additional taxes may be levied in an amount sufficient to pay the principal of and interest on the Bonds be approved?

Expanded Analysis of 1.0¢ Tax Increase Impact

1.0¢ Increase on Each \$100k of Assessed Value			
	Nov 2022 <u>Bond Amounts</u>	Allocation of <u>Tax Levy</u>	Allocation of <u>Tax Impact</u>
Schools	\$530,700,000	60%	\$6.00
Wake Tech	\$353,200,000	40%	\$4.00
Tax Impact per \$100k Value			\$10.00

1.0¢ Increase on 2021 Average Home Assessed Value \$337,000

	Nov 2022 <u>Bond Amounts</u>	Allocation of <u>Tax Levy</u>	Allocation of <u>Tax Impact</u>
Schools	\$530,700,000	60%	\$20.23
Wake Tech	\$353,200,000	40%	\$13.47
Tax Impact on \$337,000 Valued Home			\$33.70

1.0¢ Increase on 2021 Average Home Sale Price \$429,750

	Nov 2022 <u>Bond Amounts</u>	Allocation of <u>Tax Levy</u>	Allocation of <u>Tax Impact</u>
Schools	\$530,700,000	60%	\$25.81
Wake Tech	\$353,200,000	40%	\$17.17
Tax Impact on \$429,750 Valued Home			\$42.98