

Capital and Debt Considerations

Capacity constraints on project workload

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Agenda

- **Capital overview**
- **Bond Process: Steps and Considerations**
- **Design and Construction: Implementing Projects**
- **Long-term Costs: Opening the Facility**
- **Next Steps**

County responsible for multiple capital programs across multiple funds

County Capital Program

Automation
Criminal Justice
Community Capital
Economic
Development
Public Safety
County Buildings
PROS
Libraries

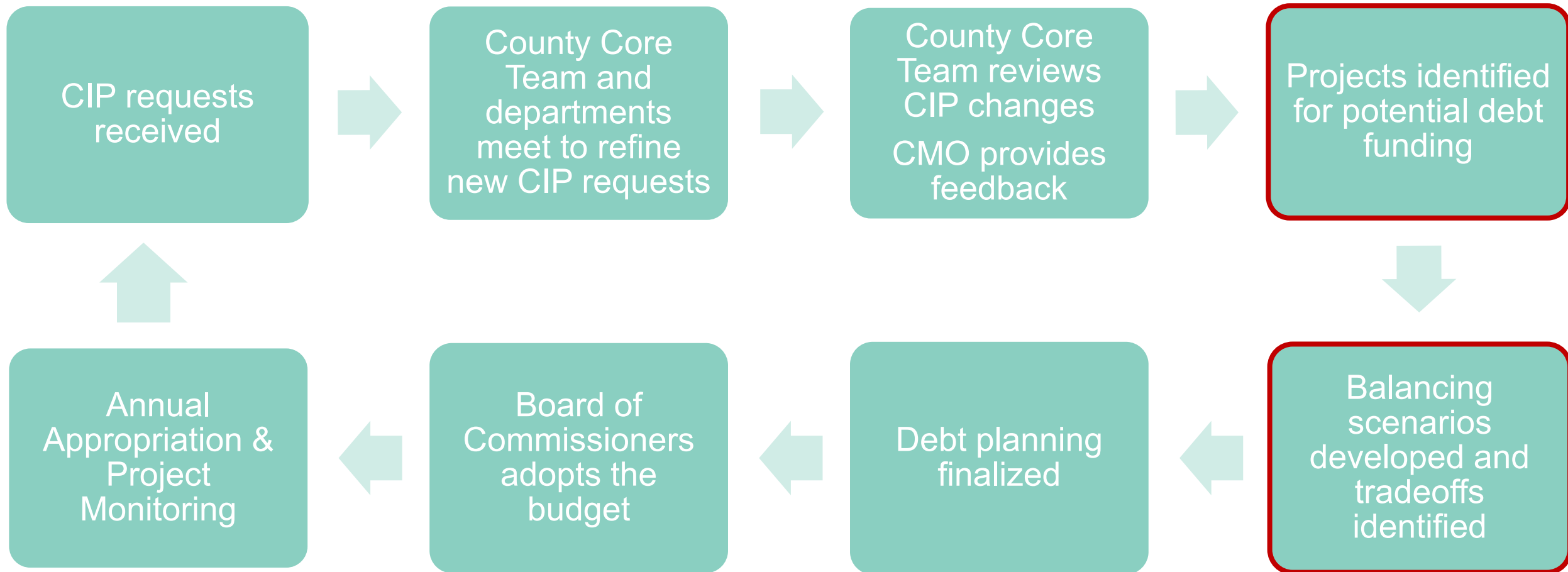
Other Programs

Housing
Fire Tax District
Solid Waste
Major Facilities

Education Programs

Wake Tech
WCPSS

County Capital Process Cycle



Preview: Take aways for today

- County has an ambitious capital plan addressing needs across several sectors
- Cost escalations are up in projects under construction and expected to go up further for planned projects
- Internal capacity influences the number of projects that can be completed
- Market capacity influences number of projects that can be completed
- Every new facility has ongoing operating and maintenance costs

Preview: Takeaways in advance of Capital & Debt budget work session

- Debt funding is a limited resource
 - April 8 Special Budget Work Session will cover debt metrics and Wake's AAA debt rating
- Maintenance is an ever-growing portion of the CIP
- With service growth new facilities are coming forward; prioritization is necessary and will need to consider:
 - Maintenance of existing facilities vs new facilities
 - Mandated facilities vs community amenities



Bond Process: Steps and Considerations

Steps leading to bond referendum

April 30	BOC direction to staff of final Referendum purpose(s) and amount(s)
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

Steps after successful bond referendum

- Issue debt in tranches sufficient to provide timely funding for projects being undertaken
 - County is frequently in bond market
 - Ideally issue bond proceeds for up to 3 years (approx) project funding
- 7-year statute to issue all authorized bonds
 - Nov 5, 2024 ballot date = bonds to be issued by Nov 4, 2031
- Unissued authorization expires after statutory deadline (7 years)
 - Statutory relief available for 7-year statute under extenuating circumstances (i.e., 2007 Library bond of \$45 million)
 - Requires application to LGC for a single 3-year extension to issue remaining bonds thus deadline becomes 10-years from ballot date

How much to include in bond question and other considerations

- Inherent in bond referendum is a reasonable expectation for bonds to be *issued* within 7-year statute to complete necessary projects
- If projections show all bonds not likely to be issued within 7 years:
 - Delay those projects / possibly include in a later subsequent referendum
- Opportunity cost of pursuing bond referendum
 - Capacity is “used up” and cannot be used for other competing capital needs
 - Debt & Capital Model helps guide & inform County of impacts of alternative funding
- Optics
 - 7-year bond issue window extended to 10-years (LGC, Taxpayers, Rating Agencies)
 - Delay in *spending* bond proceeds (LGC, Taxpayers, Rating Agencies, IRS)
 - Voter fatigue – if County does not do what it said when it said it would do it

Debt model determines Debt & Paygo capacity for future funding

- Adding more projects than previously planned:
 - Uses up future capacity that may have been planned for other purposes
 - Impacts the tax rate needed to fund CIP
 - Increases the fund balance required to be on hand (i.e., the higher the budget, the higher the fund balance)
- Debt is limited by bond agency monitored metrics, such as:
 - Annual payments as a percentage of total budget
 - Timing of when debt can be paid off
- Board direction on projects and programs are inputs to the debt and capital model
- Affordability impacts and impacts to AAA rating metrics will be shared at April 8 budget work session



Design and Construction: Implementing Projects

Regional growth and development continue to make projects more expensive

- **Construction and facility maintenance will not get cheaper**
 - Land availability is dwindling as Wake competes with developers and ourselves
 - Maintenance needs increasing as facility portfolio ages
 - County needs continue to grow
- **Experiencing lingering supply chain issues and cost impacts**
 - Increases in equipment prices and longer lead times in receiving equipment
 - Higher material prices and labor costs resulting in significant bid increases

Increased Number of Capital Projects

- 95 projects in FY 2017 versus estimated 120 projects for FY25
- Construction value of all projects > \$300 Million/Year FY 25-28
- Includes 5 projects exceeding \$20 Million planned for FY 25-31
- Construction value of these projects alone > \$300 Million

Public Health Center	\$120 M (under construction)
Morrisville Public Works/Solid Waste Conv Ctr	\$ 40 M (FY 25)
Jail Annex Renovation	\$ 10 M (FY 25)
Animal Control Center	\$ 45 M (FY 26)
GSA Headquarters	\$ 70 M (FY 26)
<u>Decedent Storage Facility</u>	<u>\$ 20 M (FY 28)</u>
TOTAL	\$ 305 Million

Major projects planned and underway throughout CIP

Project Category	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
HHS Projects 8 Existing Buildings	Public Health Building				Northern Regional Center			
		Swinburne Renovation						
	Western Regional Center				Eastern Regional Center			
		Southern Regional Center						
Parks & Preserves 6 Existing Parks	Beech Bluff							
	Kellam Wyatt Farm							
	Lake Myra							
	Blue Jay Point Renovation							
		Harris Lake Renovations						
		Historic Oakwood Renovations						
		Crowder Renovations						
Public Safety 36 Existing EMS stations	Fuquay North	Zebulon	NW Wake			Garner Fire Station #2		
	Knightdale South		Wendell North		South Wake			
			North Hills		Holly Springs Rex Road			
	Cary Main			Hopkins		Lynn Road Regional		
	Apex Station	Whitaker Mill			Mini City			
	Caddy Road		New Hill		Highway 42 Public Safety			
Libraries 22 Existing Libraries	West Regional Library							
		Holly Springs Library						
Other County Projects	WCOB Renovations							
		Courthouse 12th floor						
		Detention Center Annex Renovation			Cornerstone			
	WakeBrook Renovations			Decedent Storage				
		Animal Center						
		GSA Facility						
	Mechanical, Electrical, and Plumbing Maintenance							
	Roofing Replacements							
	Elevator Replacements							
	Mechanical work for major downtown buildings							
	Paving Maintenance							
	Minor Building renovations							

Potential projects not yet in the CIP

- Detention Center Expansion
- Crosby Garfield renovation/expansion
- Transitioning some County departments out of downtown complex
- Additional EMS stations
- ESEC expansion and renovations
- Full scope of library bond projects (GO bond slated for fall 2024 vote)

County projects are also increasing in complexity

- Addressing more complex programmatic needs
(e.g.– Public Health Building and Detention Center)
- Collaborating with jurisdictions on joint project management
(e.g. – Morrisville Public Works/Conv Ctr; Zebulon EMS/Fire Station, etc.)
- Navigating market and supply chain challenges
- Less sites available; those sites require much more work
(steep slopes, stream crossings, utility connections, road improvements)
- More complex (and \$\$\$) municipal permitting requirements

Internal Capacity – Workload Challenges

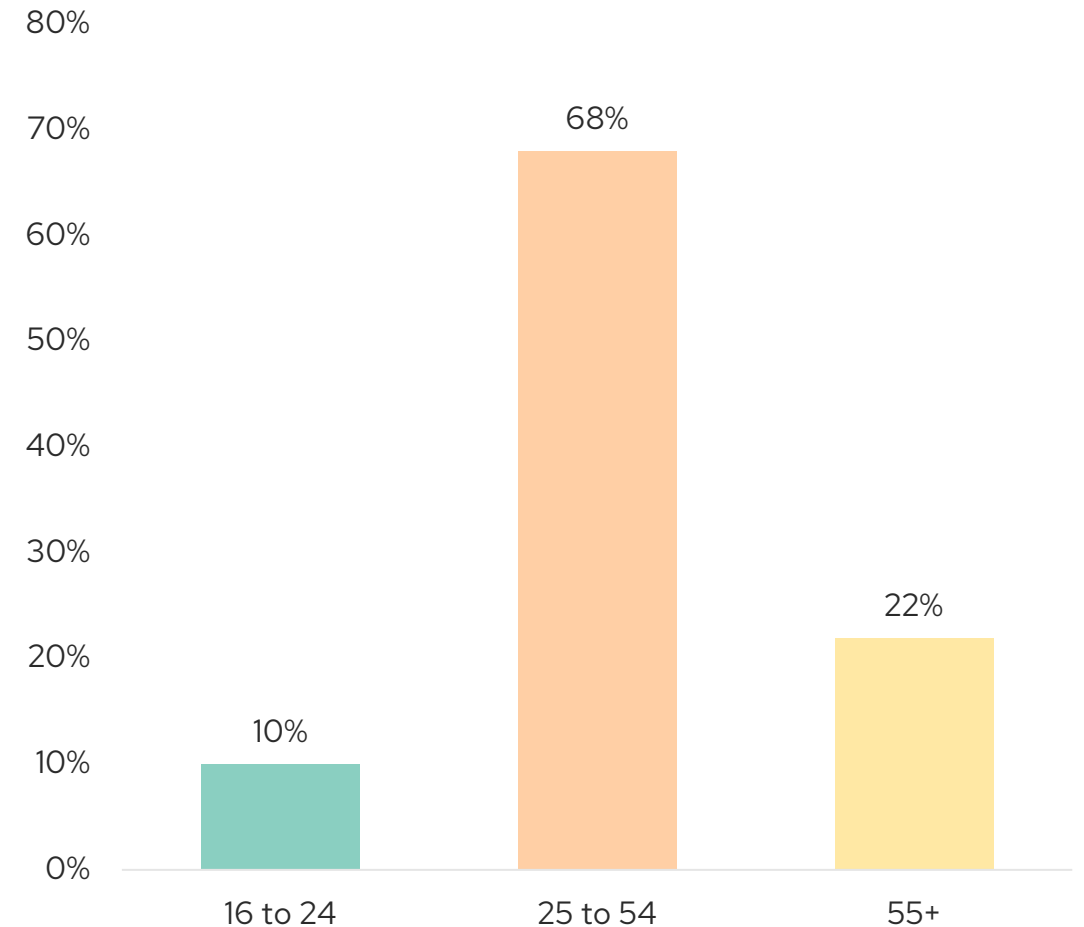
- All those projects supported by team of 9 Project Managers in FD&C
 - 120 Projects = 13 projects/ Project Manager
 - Most Effective Range = 6 to 9 projects/Project Manager (less when managing very large projects)
- Hiring Challenges – competing with private sector
 - Design, engineering and construction positions in high demand
 - FDC PM Recruitment Time – 6 to 8 months + Onboarding/Initiation
 - Projects have increased more quickly than staff ability to grow

External Capacity – Design & Construction

- Competition with WCPSS, Wake Tech, University work
- Competition with private sector development
 - Retail development
 - Health care campuses (WakeMed, UNC Health, Duke, etc)
 - High-rise residential development
 - Life sciences campuses
- Expertise of available firms
- Workloads of available firms

Most experienced construction workers nearing retirement age

- Roughly 1 in 4 workers are over age 55
- Older employees tend to be the most skilled
- In 2024, the construction industry will need to bring in more than 546,000 new workers on top of normal hiring pace in 2023 to meet industry demand



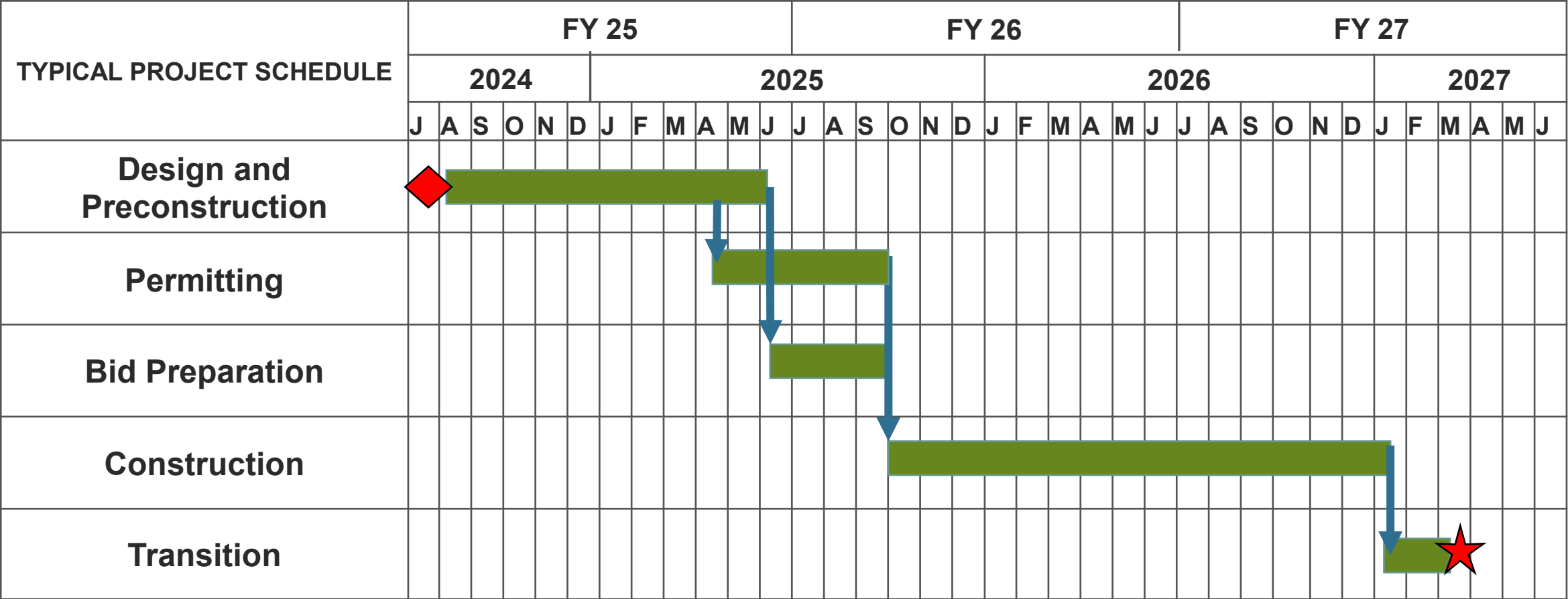
Source: Associated Builders and Contractors News Release 2023

Timeline Challenges

- Designer Procurement, Design and Permit Review Timelines
 - Statutes require design team selection process – 3 months
 - Design process generally 1 year+, especially for major projects
 - County responsible for core building permit review
 - Municipalities retain authority for site permit approval process,
 - can take 6-12 months for site plan approval prior to building review
- Major Equipment/Materials Lead Times
 - Structural Steel Members 20+ weeks
 - Mechanical Equipment 25-65 weeks
 - Electrical Switchgear 50-80 weeks
 - Emergency Generators 65-**104** weeks (Public Safety & Others)

Typical Timeline for Moderate Sized Project

\$5 to \$15 Million



Opening & Occupancy



Long Term Costs: Opening the Facility

New and expanded facilities create downstream operating and maintenance costs

- Opening a new facility often requires an expansion of County services
- Every new facility has ongoing operating and maintenance costs
 - Operating costs largely reflect staffing costs tied to the new FTE needed to run the facility and services offered
 - Maintenance costs include the life-cycle replacements needed to keep the facility functional (e.g. mechanical, electrical, and plumbing replacements; roofing; paving; technology replacements; etc.)
- Ongoing and long-term maintenance costs are NOT included in the initial bond or debt funding for the facility
- When a facility opens, operating costs are incorporated into the General Fund Budget. Maintenance costs are incorporated into cash funded County Capital maintenance projects

Each new and expanded facility ranges in operating cost and FTE

Facility	Capital Costs	Annual Operating Costs*	FTE
Garner Main Regional EMS Station (currently operational)	\$ 9 M	~\$4-5 M	~31+
Cary Regional Library (currently operational)	\$15 M (2020 dollars)	~\$2.4 M	24
Beech Bluff Park (construction underway)	\$26 M	~\$1 M	10
Detention Center Annex (planned)	\$8 – 21 M	\$15 – 25 M	100 – 125

*Excludes long term life-cycle replacement and maintenance costs for the facility



Next Steps

Upcoming capital dates

- April 8 – Board Work Session on Debt & Capital planning
- May 6 – Recommended Budget will include balanced capital plan
- May 13 or 23 – One of the May Board Work Sessions will focus on additional information for the recommended FY25 – 31 Debt and Capital Plan



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