Debt and Capital Capacity

In this section, we will:

- **Review debt and capital policies / guidelines;**
- **Explain changes to financial planning model assumptions; and**
- **Share capital capacity options to fund future plans and any associated tax increases.**

Seven-Year Capital Plan Developed Around Context of Policies and Targets

Operating Fund Balance ≥ 30%

Debt to Assessed Value ≤ 1.75 %

Aaa (Moody's)
AAA (Fitch)
AAA (S&P)

Principal Amortization ≥ 70% within 10 years

Debt/Cash Funded Projects ≈ 80%/20%

Debt Service as % of Governmental Expenditures ≈ 20%

Policies and targets are consistent with rating agencies for and benchmarked against Aaa/AAA/AAA governments.

Debt and Capital Policies and Guidelines

Maintain adequate reserves (≥ 30% General Fund + Debt Service Fund Revenues)

Debt to assessed value managed within expected ranges (≤ 1.75%)

Debt repayment schedule of ≥ 70% principal paid within ten years

Strive for annual debt service expenditures to be ≤ 20% of total governmental expenditures

Access to funding secured prior to funds appropriated or any commitment to contracts

Variable rate debt < 25% of overall debt outstanding

Strive to maintain an 80 Debt / 20 Cash funding ratio

Debt Financing Creates the Lowest Burden to Taxpayers

- Cost of capital is spread over time
- Current and future taxpayers share cost and benefit of the asset

Willow Springs High

	Example $97M High School	
	100% Debt	**100% Cash**
Amount Spent Over Three Years	$27.7 M	$97 M
Tax Increase Assuming Zero Capacity Exists	0.68 cents	2.3 cents

When Does the County Use Debt?

Cost to build/purchase is large

- A single asset (jail, courthouse, or office building)
- A collection of like assets that total a large amount and/or part of a multi-year program
  - Libraries, open space, and parks
  - School and community college facilities and equipment
  - Fire apparatus

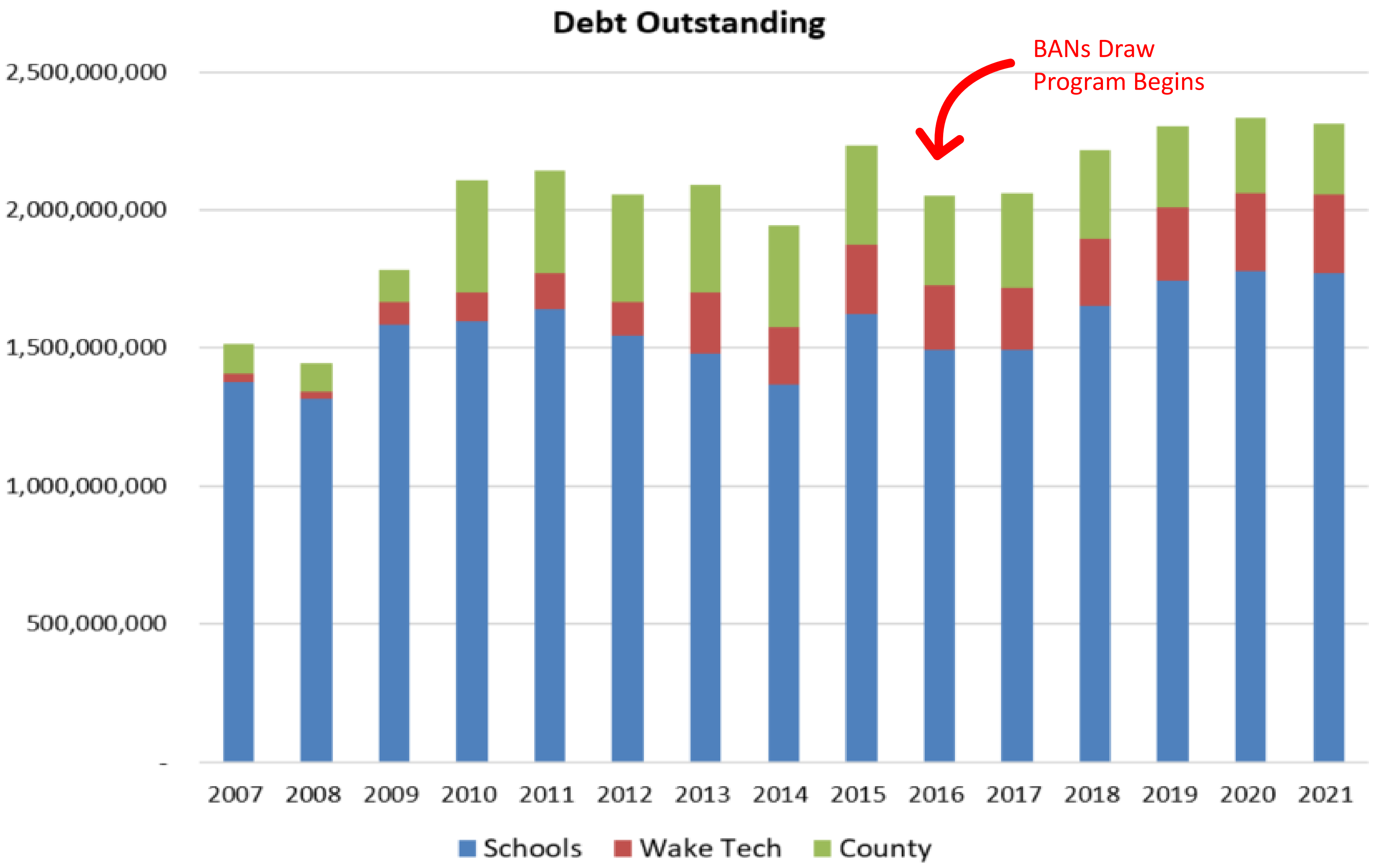
Expected life of the asset is longer than one year

Must spend proceeds according to IRS guidelines

Which Debt Options are Best?

It depends…	General Obligation (GO) Bonds	Limited Obligation Bonds (LOBs)
Purposes	Large volume of capital needs (schools) Discretionary projects (libraries, parks, open space)	Essential governmental projects that must move forward even if GO referenda fails (public safety, human services)
Method	Referendum approved by the voters	Local Government Commission approval
Security/Collateral	Full faith and credit (taxing power) of governmental unit Voters approve pledge of future tax dollars	The asset(s) for which funds are being borrowed Annual appropriation of debt service payment by governing board
Cost	Lowest cost permanent financing option	Slightly higher cost financing option (typically rated a notch below GO Bonds)

Education Needs Drive Increase in County Debt



The Future is Difficult to Predict

Time	1 - 2 Years	3 - 5 Years	6 – 7 Years
Revenues & Expenditures	Realistic Predictable Data	Conservative	More Conservative & Cautious
Economic Uncertainty	Low	Moderate	High
Need for Margin of Error	Low	Moderate	High

Rate Assumptions Increasing For Short Term Debt

	2018	2019	2020	2021	2022	2023	2024	2025
GO BANs - Variable Interest Rate	2.00%	2.64%	3.07%	3.17%	3.17%	3.17%	3.17%	3.17%
Prior	1.46%	1.74%	1.97%	2.06%	2.19%	2.27%	2.27%	2.27%
Net Change	0.54%	0.90%	1.10%	1.11%	0.98%	0.90%	0.90%	0.90%
LOB BANs - Variable Interest Rate	2.20%	2.84%	3.27%	3.37%	3.37%	3.37%	3.37%	3.37%
Prior	1.66%	1.94%	2.17%	2.26%	2.39%	2.39%	2.47%	2.47%
Net Change	0.54%	0.90%	1.10%	1.11%	0.98%	0.98%	0.90%	0.90%

County’s short term debt instruments – GO BANs and LOB BANs

New tax legislation added .35% to .56% to prior assumptions of short-term interest rates

There are still cost savings of using BAN programs vs. bonds

Rate Assumptions Also Increasing For Investments

	2018	2019	2020	2021	2022	2023	2024	2025
Investment Rate	1.00%	1.63%	2.38%	2.88%	3.00%	3.00%	3.00%	3.00%
Prior	1.00%	1.35%	1.75%	2.00%	2.25%	2.50%	2.50%	2.50%
Net Change	-	0.28%	0.63%	0.88%	0.75%	0.50%	0.50%	0.50%

An upward trend in these rates has a *net-positive* effect for County

- County's Investment earnings base exceeds its short-term rate debt base

Rate Assumptions Unchanged For Permanent Debt

	2018	2019	2020	2021	2022	2023	2024	2025
GO Bonds - Fixed Rate TIC	2.87% *	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
LOBs - Fixed Rate TIC	3.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

**Actual bond sale results*

County’s permanent debt instruments – GO Bonds and LOBS

2018A GO Refunding Bonds sold 2/21/2018 with 2.87% actual TIC

- **$9.8M** estimated total debt service savings over life of bonds (3.25% estimated TIC)

Permanent debt assumptions remain conservative

Model Assumptions Recap

		2018	2019	2020	2021*	2022	2023	2024	2025*
Tax Revenues	Total Property Tax Rate	61.50	61.50	61.50	56.01	56.01	56.01	56.01	51.01
	Property Tax Rate for Capital	18.76	18.76	18.76	17.08	17.08	17.08	17.08	15.56
	Property Tax Valuation Growth	2.10%	2.10%	2.25%	12.00%	2.00%	2.00%	2.00%	12.00%
	Sales Tax Annual Growth	5.48%	6.66%	5.50%	5.50%	5.00%	5.00%	4.50%	4.00%
Interest Rates	Investment Rate	1.00%	1.63%	2.38%	2.88%	3.00%	3.00%	3.00%	3.00%
	GO BANs - Variable Interest Rate	2.00%	2.64%	3.07%	3.17%	3.17%	3.17%	3.17%	3.17%
	GO Bonds - Fixed Rate TIC	2.87%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
	LOB BANs - Variable Interest Rate	2.20%	2.84%	3.27%	3.37%	3.37%	3.37%	3.37%	3.37%
	LOB Bonds - Fixed Rate TIC	3.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

* *Reappraisal Year*

FY2019 Capital Plan Funded at Existing Tax Rate

18.76¢ of Property Tax Rate ($275 Million) Dedicated To:

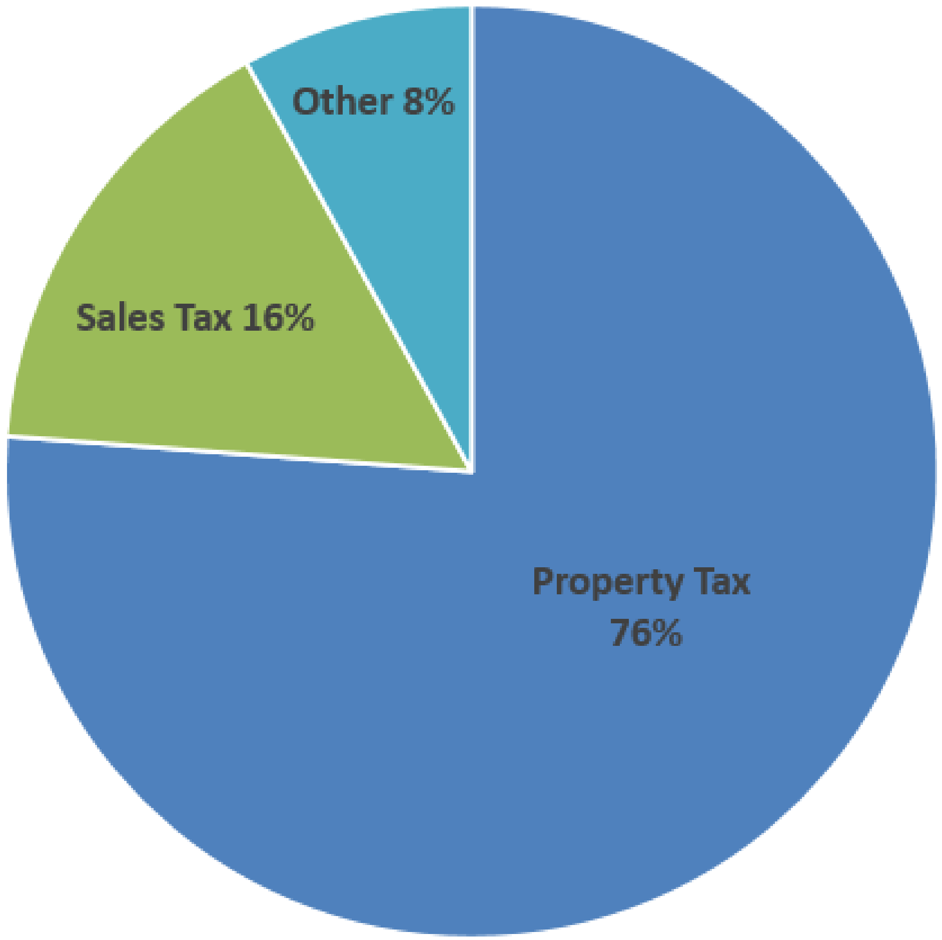
- Debt Service: $221 Million
- WCPSS Cash Funded Capital: $23 Million
- County Cash Funded Capital: $31 Million

Sales Tax Transfer - $46 Million

- Portion of Article 40 (30%) and Article 42 (60%)
- All used toward WCPSS debt service

Other Funding Sources Total $31 Million

- Includes lottery proceeds, federal subsidies, and interest income



FY2019 Capital Plan Funded at Existing Tax Rate

- Because the County has no remaining GO authorization, WCPSS and WTCC capital needs continue to be debt funded with LOBs until successful referenda

- No funding for new County programs at current tax rate

LOBS		
WCPSS	$	312,406,000
WTCC	$	79,455,000
Total Debt	$	391,861,000
Cash		
WCPSS	$	23,209,000
WTCC	$	-
COUNTY/OTHER	$	31,259,679
Total Cash	$	54,468,679
FY 2019 Total	**$**	**446,329,679**

Policies and Guidelines	Target	2019
Fund Balance Ratio	≥ 30%	30.4%
% Debt Paid in 10 Years	≥ 70%	42.8%
Debt : Capital Ratio	≤ 80%	88%
Debt : Assessed Value Ratio	≤ 1.75%	1.56%

Option A: Future Capacity is Limited without a Tax Increase

	2020	2021	2022	2023	2024	2025
Tax Increase	n/a	n/a	n/a	n/a	n/a	n/a
Total Debt	$ 235,000,000	$ 235,000,000	$ 235,000,000	$ 235,000,000	$ 235,000,000	$ 235,000,000
Total Cash*	$ 52,000,000	$ 52,000,000	$ 53,000,000	$ 54,000,000	$ 55,000,000	$ 56,000,000
Total Capacity	**$ 287,000,000**	**$ 287,000,000**	**$ 288,000,000**	**$ 289,000,000**	**$ 290,000,000**	**$ 291,000,000**

**Cash capacity includes County projects identified in CIP*

Policies and Guidelines	**Target**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Fund Balance Ratio	≥ 30%	30.3%	31.5%	31.5%	31.1%	30.7%	30.2%
% Debt Paid in 10 Years	≥ 70%	73.2%	72.6%	71.9%	72.3%	72.9%	73.8%
Debt : Capital Ratio	≤ 80%	81%	81%	81%	81%	81%	80%
Debt : Assessed Value Ratio	≤ 1.75%	1.58%	1.47%	1.44%	1.41%	1.37%	1.21%

WCPSS plan alone exceeds amount available without a tax increase

In order to protect the Fund Balance Ratio without a tax increase, the Debt:Capital Ratio exceeds policy limits

Option B: Maximum Capacity Puts Adherence to Financial Policies at Risk

	2020	2021	2022	2023	2024	2025
Tax Increase	4.5¢				1.0¢	
Total Debt	$ 418,000,000	$ 416,000,000	$ 388,000,000	$ 450,000,000	$ 423,000,000	$ 419,000,000
Total Cash*	$ 96,000,000	$ 108,000,000	$ 101,000,000	$ 117,000,000	$ 101,000,000	$ 105,000,000
Total Capacity	**$ 514,000,000**	**$ 524,000,000**	**$ 489,000,000**	**$ 567,000,000**	**$ 524,000,000**	**$ 524,000,000**

**Cash capacity includes County projects identified in CIP*

Policies and Guidelines	Target	2020	2021	2022	2023	2024	2025
Fund Balance Ratio	≥ 30%	30.5%	32.4%	33.3%	31.8%	31.4%	30.1%
% Debt Paid in 10 Years	≥ 70%	73.2%	71.9%	70.4%	69.9%	69.8%	70.2%
Debt : Capital Ratio	≤ 80%	81%	79%	79%	79%	80%	80%
Debt : Assessed Value Ratio	≤ 1.75%	1.60%	1.55%	1.60%	1.66%	1.71%	1.60%

Staff does not recommend utilizing Maximum Capacity:

- Pushes financial policy limits
- Limits flexibility to adjust for changing economic conditions

Option C: "Strawman" (50% of Max Capacity) Evaluates Tax Impact, Policy & Program Needs

	2020	2021	2022	2023	2024	2025
Tax Increase	3.5¢		.75¢		.50¢	
Total Debt	$ 388,000,000	$ 386,000,000	$ 358,000,000	$ 420,000,000	$ 393,000,000	$ 389,000,000
Total Cash*	$ 89,000,000	$ 97,000,000	$ 89,000,000	$ 109,000,000	$ 98,000,000	$ 97,000,000
Total Capacity	**$ 477,000,000**	**$ 483,000,000**	**$ 447,000,000**	**$ 529,000,000**	**$ 491,000,000**	**$ 486,000,000**

**Cash capacity includes County projects identified in CIP*

Policies and Guidelines	Target	2020	2021	2022	2023	2024	2025
Fund Balance Ratio	≥ 30%	30.3%	31.9%	33.2%	32.2%	31.9%	30.9%
% Debt Paid in 10 Years	≥ 70%	73.2%	72.0%	70.6%	70.2%	70.2%	70.6%
Debt : Capital Ratio	≤ 80%	81%	80%	80%	79%	80%	80%
Debt : Assessed Value Ratio	≤ 1.75%	1.59%	1.54%	1.58%	1.62%	1.66%	1.54%

A less than maximum capacity choice:

- Reduces tax impact in near term
- Creates cushion in the model
- Allows accomplishment of some capital program requests, not all

Board “Take aways” and Questions