

# Debt and Capital Model Update

Meeting Capital Needs and Maintaining AAA



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# Updates since 2018 Board retreat

- **Successful 2018 bond referenda**
- **3.8¢ tax increase still supports these bonds**
- **No significant Model changes**
- **Continue to review future plans for County and Schools CIP and their impacts to Model**

# In This Section We Will

- Review PAYGO and debt background;
- Review Policies and guidelines;
- Present Updated Debt and Capital Model; and
- Share future Board considerations and next steps

# County meets its capital needs with PAYGO and Debt

## **PAYGO**

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

## **Debt**

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

# PAYGO or Debt? 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

- Greater tax burden required to fund all major assets with cash
- AAA bond ratings ensure lowest cost of financing

## Flexibility

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

## Intergenerational Equity

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

# Types of debt issued by County

## General Obligation Bond

- ☐ Voter authorized
- ☐ Lowest cost
- ☐ Permanent and long-term (i.e., 20 years)
- ☐ Backed by full faith and credit of County
- ☐ Example – Parks and Recreation GO

## Draw Programs

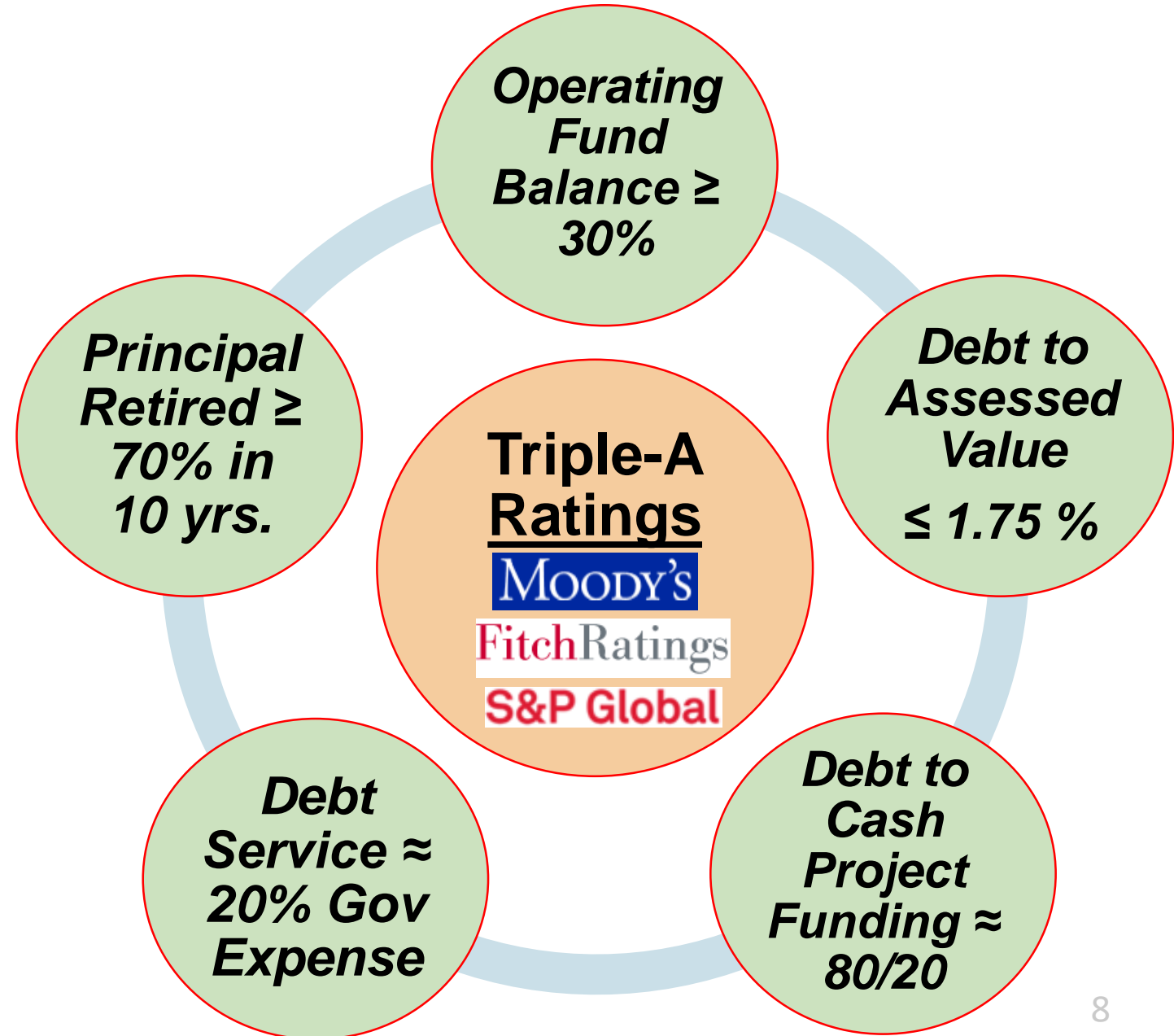
- ☐ Board authorized
- ☐ Cost depends on structure and term
- ☐ Temporary and short-term (i.e., 2-4 years)
- ☐ Example – Draw Program for Schools

## Limited Obligation Bond

- ☐ Board authorized
- ☐ Slightly higher cost
- ☐ Permanent and long-term (i.e., 20 years)
- ☐ Backed by Assets pledged as collateral
- ☐ Example – Justice Center

# Debt and capital policies established in early 2000's

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



# Policies and Guidelines

- ❑ **Fund Balance  $\geq 30\%$**  (General Fund + Debt Service Fund Revenues)
- ❑ **Debt to assessed value  $\leq 1.75\%$**
- ❑ **Debt repayment of  $\geq 70\%$**  total principal within 10 years
- ❑ **Variable rate debt  $< 25\%$**  of overall debt outstanding
- ❑ Strive for annual **debt service expenditures to be  $\leq 20\%$**  of total governmental expenditures
- ❑ Strive to maintain an **80 Debt / 20 Cash** funding ratio
- ❑ **Funding secured prior to appropriation** or contract commitment

# How do we monitor policies and ensure we maintain ratios at desired levels?

*...through use of a Debt and Capital Financial Model*

The screenshot displays a Microsoft Excel spreadsheet titled "ACROBAT" with a ribbon menu at the top. The spreadsheet is organized into several sections, each with a specific focus on financial data for the years 2018, 2019, and 2020.

**Current Projection**

	2018	2019	2020
Tax Rate	61.50	65.44	69.24

**Real Property**

	2018	2019	2020
Assessed Valuation	136,725,000.00	141,000,000.00	138,030.00
Tax Lev	895,234.738	976,907.160	1,001.00
Less - Related Tax & Orls	(12,334.759)	(17,500.000)	13.00
Revised Tax Lev	882,900.000	970,283.374	999.00

**Tax Rate (cents)**

	2018	2019
Prior year tax rate	60.05	61.50
Tax increase - operating	1.70	3.94
Tax increase - capital	(0.25)	
Current year tax rate	61.50	65.44

**Tax Base (\$ 000)**

	2018	2019
Valuation	\$144,375,000	\$148,085,000
Annual growth rate	2.10%	2.57%
Levy after collection rate	880.500	921.178
Revenue per penny	14,317	14,729
Capital tax rate	18.76	18.76
Ad valorem tax - capital program	268,413	276,501
Ad valorem tax allocation:		
Debt Service Fund	194,683	219,218
Debt Service Fund - Tie to Budget	33,778	22,023
Transfer to WCPSS Capital	10,033	
Transfer to County Capital	29,919	35,260
Total	268,413	276,501

**DEBT SERVICE REVENUES**

	2018	2019
Ad valorem tax	194,683	219,218
Sales Tax - Article 40 & 42	43,315	45,184
Transfer in from Fire Tax - bank debt	1,141	511

**Fund Balance (End of Year)**

	2018	2019	2020
General Fund	\$ 317,613,610	\$ 330,792,923	\$ 345,051,826
Debt Service Fund	\$ 106,975,719	\$ 102,525,336	\$ 124,709,636
Combined Fund Balance	\$ 424,589,329	\$ 433,318,259	\$ 469,761,462

# Debt and Capital Model background

- Financial tool integral for analyzing
  - Affordability of capital planning given current resources
  - Level and timing of property tax impact
  - Opportunity cost of certain capital funding decisions
  - Key metrics to ensure triple-A ratings are protected
- Includes base assumptions; monitored and adjusted as necessary
- Ongoing updates throughout year (i.e., annual budget process; closing of debt transactions; completion of CAFR)

# No major changes in Model's key base assumptions

	FY2019	FY2020	FY2021*	FY2022	FY2023	FY2024	FY2025*	FY2026
<b>Tax Revenues</b>								
Property Tax Rate - Total	65.44¢	69.24¢	63.06¢	63.91¢	63.91¢	65.66¢	59.79¢	59.79¢
Property Tax Rate - Dedicated for Capital	18.76¢	22.56¢	20.55¢	21.40¢	21.40¢	23.15¢	21.08¢	21.08¢
Property Tax Valuation Growth	2.57%	2.90%	12.00%	2.00%	2.00%	2.00%	12.00%	2.00%
Sales Tax Growth	6.66%	4.00%	4.00%	4.00%	3.50%	3.50%	3.50%	3.00%

<b>Interest Rates</b>								
Investment Rate	1.63%	2.38%	2.88%	3.00%	3.00%	3.00%	3.00%	3.00%
GO BANs - Variable Rate (Short term)	2.64%	2.78%	2.88%	2.88%	2.88%	2.88%	2.88%	2.88%
GO Bonds - Fixed Rate (Long term)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
LOB BANs - Variable Rate (Short term)	2.35%	2.74%	2.84%	2.84%				
LOB Bonds - Fixed Rate (Long term)	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

*\*Reappraisal Year - assumes property tax rate adjusted for revenue neutrality*

# Debt and Capital Model inputs for FY2020-26

- Capital Request for FY20-26 Confirmed
  - Wake Tech (\$664.35 million)
  - PGROS (\$120 million)
- Capital Request for FY20-26 Assumed
  - Schools assumed at FY19 County adopted CIP funding level
    - Current \$2.45 billion for FY20-26 / subject to change
    - Work in progress: Schools Joint Core Team
  - County capital assumed with only PAYGO funding
  - Human Services assumed at 2018 Retreat level
    - Current \$86.9 million for FY20-25

# Current and projected bond programs and tax impacts

CALENDAR YEARS		2019		2020	2021		2022	2023		2024	2025
FISCAL YEARS		FY 19		FY 20	FY 21		FY 22	FY 23		FY 24	FY 25
BALLOT QUESTIONS											
WCPSS GO Bonds; Vote Every 2 Years	Vote Nov	New Tax Rate Set June	G.O Debt Avail		Vote Nov	New Tax Rate Set June	G.O Debt Avail		Vote Nov	New Tax Rate Set	G.O Debt Avail
Tax Increases		2.30				0.85				1.40	
Ballot Amounts			\$548 million				\$562 million			\$652 million	
WTCC GO Bonds; Vote Every 4 Years	Vote Nov	New Tax Rate Set June	G.O Debt Avail						Vote Nov	New Tax Rate Set	G.O Debt Avail
Tax Increases		1.15								0.35	
Ballot Amounts			\$349 million							\$179 million +	
PROS GO Bonds; Vote Every 6 Years	Vote Nov	New Tax Rate Set June	G.O Debt Avail								Vote Nov
Tax Increases		0.35									
Ballot Amounts			\$120 million								
Total Estimated Tax Increases		3.80				0.85				1.75	

# 2018 projected property tax increases continue to support previously identified and assumed needs

(in thousands)

## Capital Program:

### Debt

	2020	2021	2022	2023	2024	2025	2026
WCPSS	\$ 265,865	\$ 282,032	\$ 287,067	\$ 274,646	\$ 348,238	\$ 303,877	\$ 303,877
WTCC	86,543	90,510	76,873	95,111	99,697	78,902	79,148
PROS	20,000	20,000	20,000	20,000	20,000	20,000	
HUMAN SERVICES (LOBs)		15,000		55,000			
OTHER COUNTY CIP (LOBs)							
<b>TOTAL DEBT</b>	<b>\$ 372,408</b>	<b>\$ 407,542</b>	<b>\$ 383,940</b>	<b>\$ 444,757</b>	<b>\$ 467,935</b>	<b>\$ 402,779</b>	<b>\$ 383,025</b>
<b>PAYGO</b>							
WCPSS	\$ 38,381	\$ 65,856	\$ 62,231	\$ 64,648	\$ 66,108	\$ 68,091	\$ 68,091
WTCC	10,033	10,033	7,500	7,500	7,500	7,500	7,500
HUMAN SERVICES	5,800	500	1,500	5,000	1,500	2,600	
OTHER COUNTY CIP	34,076	34,870	35,971	36,702	38,444	39,309	40,020
<b>TOTAL CASH</b>	<b>\$ 88,290</b>	<b>\$ 111,259</b>	<b>\$ 107,202</b>	<b>\$ 113,850</b>	<b>\$ 113,552</b>	<b>\$ 117,500</b>	<b>\$ 115,611</b>
<b>TOTAL CAPACITY</b>	<b>\$ 460,698</b>	<b>\$ 518,801</b>	<b>\$ 491,142</b>	<b>\$ 558,607</b>	<b>\$ 581,487</b>	<b>\$ 520,279</b>	<b>\$ 498,636</b>

Future Recommended Levy	3.80	0.85	1.75	-	-
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# Debt policies and guidelines remain at desired levels with these Debt and Capital Model inputs

Policy or Guideline	Goal	2020	2021	2022	2023	2024	2025	2026
Fund Balance Ratio	$\geq 30\%$	31.2%	32.7%	33.3%	32.5%	32.1%	31.3%	32.7%
% Debt Paid in 10 Years	$\geq 70\%$	73%	71%	71%	70%	70%	70%	71%
Debt / Capital Ratio	Strive for 80 / 20	81%	79%	78%	80%	80%	77%	77%
Debt/Assessed Value Ratio	$\leq 1.75\%$	1.59%	1.54%	1.58%	1.66%	1.70%	1.60%	1.65%
Debt Service % of Total Expenditures	Strive for $\leq 20\%$	19%	18%	19%	20%	21%	22%	21%

# Future considerations

- ✓ Schools capital funding level for FY22-26
  - FY20-21 set by bond
  - FY22-26 currently modeled at \$1.85 billion
  - Impact of proposed State Funding for Education
    - H.B. 241 - Education Bond Act of 2019 (i.e., “School construction bond”)
    - S.B. 5 - Education Funding by Annual Appropriation (i.e., “Paygo”)
- ✓ Other County capital projects
  - Updates to Human Services master plan
  - Other capital needs still under development
- ✓ Affordability of new projects or changes to existing plans
  - Do policy metrics remain at desired levels?
  - Are projected future tax levies still sufficient?

# Next Steps

- Finalize capital plans and needed funding
  - Assess and report on impacts to Debt and Capital Model
- Adopt the additional 3.8¢ property tax increase with FY 2020 budget to support the 2018 bond referenda
  - Begin draw programs for Schools and Wake Tech in August
  - Sell initial PGROS bonds in October



# Board Takeaways