

# Funding Options for Schools FY22-FY23 Capital Needs

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# Agenda

- ✓ **Background**
- ✓ **Debt and Capital Model Update**
- ✓ **Funding Options for Schools FY22-FY23: Bond vs LOBs**
- ✓ **Considerations**
- ✓ **Review and Recommendation**
- ✓ **Next Steps**

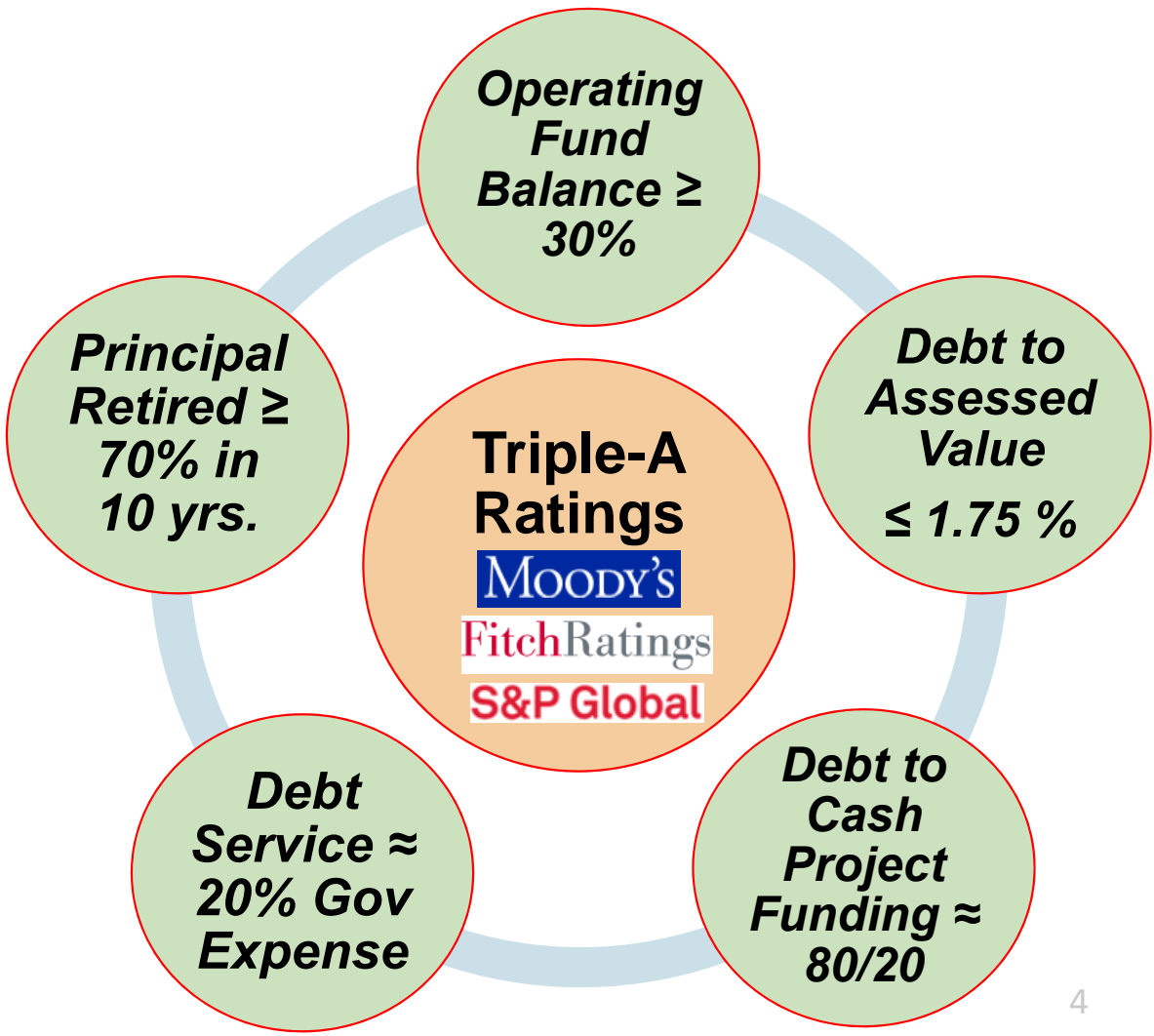
# Background

## BOC selects optimal funding strategy for CIP program needs of County, WCPSS, and WTCC

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			
<b>BALLOT QUESTIONS</b>											
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				1.00				1.30	
Ballot Amounts			\$548 million			\$594 million			\$587 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								0.30	
Ballot Amounts			\$349 million						\$179 million +		
PGROS 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								
Estimated Tax Increases (as of June 2019)		3.80			1.00				1.60		
		Adopted									

# 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



# Debt and Capital Model is Comprehensive Financial and Planning Tool

- ★ **Track policy metrics to protect triple-A ratings**
  - Ensures lowest debt financing rates; lowest cost to taxpayers
- ★ **Determine affordability and viability in Capital planning**
  - Impact to current resources / available capacity
  - Necessity, level, and timing of required future tax increases
  - Opportunity cost of certain capital funding scenarios

## Policy Metrics at FY20 Budget Adoption

Policy or Guideline	Goal	2020	2021	2022	2023	2024	2025	2026
Fund Balance Ratio	≥ 30%	30.8%	32.0%	32.7%	32.1%	31.7%	30.6%	31.5%
% Debt Paid in 10 Years	≥ 70%	73.0%	71.4%	70.8%	70.2%	70.1%	70.6%	71.4%
Debt / Capital Ratio	Strive for 80 / 20	82%	76%	80%	81%	80%	75%	78%
Debt / Assessed Value Ratio	≤ 1.75%	1.59%	1.53%	1.58%	1.67%	1.73%	1.61%	1.65%
Debt Service as % Total Expenditures	Strive for ≤ 20%	18%	17%	19%	20%	21%	22%	20%

Future Recommended Tax Levy

3.80

1.00

1.60

-

- Anticipated 1¢ Tax Increase needed in FY22 to support FY22-FY23 WCPSS Capital Needs
- Anticipated 1.6¢ Increase needed in FY24 to support FY24-FY25 WCPSS and WTCC Capital Needs
- Policy metrics maintained at desired levels given base assumptions

# Financial Info and Assumptions Updated in Model

## Financial updates

- FY19 actuals
- FY20 and FY21 draw program terms better than projected
- 2019C PGROS GO bond sale results better than projected

## Base Model assumptions reviewed and adjusted as necessary

- FY20 and FY21 valuation growth – fine tuning with more certainty
- Investment Rate – revised down
- Short Term Debt Rate – revised down
- Long Term Debt Rate – revised down

# Revised Assumptions

**Established Methodology** – adjust rate assumptions if actual rates were outside of a projected window

**Ultimate Goal** – conservative modeling accounts for the unknown while maximizing available resources

		2020	2021*	2022	2023	2024	2025*	2026	2027
Revenues	Property Tax Valuation Growth	3.25%	24.00%	2.00%	2.00%	2.00%	12.00%	2.00%	2.00%
	Sales tax annual growth rate	4.00%	4.00%	4.00%	3.50%	3.50%	3.50%	3.00%	3.00%
	Investment rate	1.75%	1.75%	1.50%	1.25%	1.00%	1.00%	1.00%	1.00%
Expenses	GO Draw Programs - Variable Rate	1.89%	1.70%	1.50%	1.30%	1.30%	1.30%	1.30%	1.30%
	GO Bonds - Fixed Rate	3.25%	3.50%	3.75%	4.00%	4.00%	4.00%	4.00%	4.00%
	LOBs - Fixed Rate	3.50%	3.75%	4.00%	4.25%	4.25%	4.25%	4.25%	4.25%

\*revaluation year



# Capital Funding – Update In Process

Capital Program:	2021	2022	2023	2024	2025	2026	2027
<b>Debt</b>							
WCPSS	281,862,773	299,638,328	294,731,297	324,810,882	261,927,348	327,623,663	344,824,000
WTCC	90,510,000	76,873,000	95,111,000	99,697,000	78,902,000	79,148,000	83,304,000
PROS		22,540,000	19,200,000	20,920,000	15,610,000		
HUMAN SERVICES (LOBs)		20,000,000	60,500,000			10,000,000	
OTHER COUNTY CIP (LOBs)				11,000,000			
<b>TOTAL DEBT</b>	<b>\$ 372,372,773</b>	<b>\$ 419,051,328</b>	<b>\$ 469,542,297</b>	<b>\$ 456,427,882</b>	<b>\$ 356,439,348</b>	<b>\$ 416,771,663</b>	<b>\$ 428,128,000</b>
<b>PAYGO</b>							
WCPSS	65,855,281	62,230,939	65,127,867	66,357,303	68,090,522	70,133,238	73,816,000
WTCC	10,033,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	7,894,000
HUMAN SERVICES	5,100,000	500,000		500,000	1,100,000	1,500,000	
OTHER COUNTY CIP	35,133,000	35,721,000	36,437,000	38,986,000	39,739,000	40,471,000	41,281,000
<b>TOTAL CASH</b>	<b>\$ 116,121,281</b>	<b>\$ 105,951,939</b>	<b>\$ 109,064,867</b>	<b>\$ 113,343,303</b>	<b>\$ 116,429,522</b>	<b>\$ 119,604,238</b>	<b>\$ 122,991,000</b>
<b>TOTAL CAPACITY</b>	<b>\$ 488,494,054</b>	<b>\$ 525,003,268</b>	<b>\$ 578,607,164</b>	<b>\$ 569,771,185</b>	<b>\$ 472,868,871</b>	<b>\$ 536,375,901</b>	<b>\$ 551,119,000</b>

- Existing FY21-26 per adopted FY20-26 CIP; FY27 at assumed level
- Capital Funding levels will be updated in Feb / Mar 2020

# Schools Funding Options for FY22-FY23

## **General Obligation Bonds (GO Bonds)**

- *Long term debt backed by the full credit and taxing authority of issuer*
- *Authorized by voters via referenda*

## **Limited Obligation Bonds (LOBs)**

- *Long term debt backed by collateral assets of issuer*
- *Authorized by local government*

# Comparison of Options

## GO Bond Approach

- Fall 2020 Schools Bond Referenda
- General Obligation Bonds – cheapest cost to taxpayers
- May 2020 first of several required BOC actions for Bond on Nov 2020 Ballot
- Planned GO BAN draw program in FY22-FY23; future GO Bond take outs
- Projected future tax impacts
  - FY22: no tax increase needed
  - FY24: tax increase 2.45¢

## LOBs Approach

- No referenda necessary
- Limited Obligation Bonds – cost to taxpayers slightly above GO Bonds
- No action required in 2020
- Planned BAN draw program in FY22-FY23; future LOBs take outs
- Projected future tax impacts
  - FY22: no tax increase needed
  - FY24: tax increase 2.95¢

# Policy Metrics Similar With Either Approach

## GO Bonds

Policy or Guideline	Goal	2021	2022	2023	2024	2025	2026	2027
Fund Balance Ratio	≥ 30%	32.8%	33.1%	31.8%	31.2%	30.5%	31.4%	34.1%
% Debt Paid in 10 Years	≥ 70%	71.7%	71.1%	70.3%	70.2%	70.6%	71.2%	72.0%
Debt / Capital Ratio	Strive for 80 / 20	76%	80%	81%	80%	76%	79%	79%
Debt / Assessed Value Ratio	≤ 1.75%	1.36%	1.42%	1.50%	1.55%	1.46%	1.51%	1.54%
Debt Service as % Total Expenditures	Strive for ≤ 20%	17%	18%	19%	20%	21%	20%	19%

Estimated Tax Levy

-

2.45

-

## LOBs

Policy or Guideline	Goal	2021	2022	2023	2024	2025	2026	2027
Fund Balance Ratio	≥ 30%	32.8%	33.1%	31.8%	31.2%	30.5%	31.7%	34.9%
% Debt Paid in 10 Years	≥ 70%	71.7%	71.3%	70.1%	70.0%	70.7%	71.5%	72.4%
Debt / Capital Ratio	Strive for 80 / 20	76%	80%	81%	80%	76%	79%	78%
Debt / Assessed Value Ratio	≤ 1.75%	1.36%	1.42%	1.50%	1.55%	1.45%	1.51%	1.54%
Debt Service as % Total Expenditures	Strive for ≤ 20%	17%	18%	19%	20%	21%	20%	19%

Estimated Tax Levy

-

2.95

-

# Considerations

## ★ Future Tax Impact

- FY22 projected tax increase no longer needed to support estimated WCPSS Capital request for FY22-FY23; funded by existing capacity
- Trade off – a tax increase not only benefits associated Capital Programs for specific intended years, but also assists in funding future Capital Programs by “pre-building” capacity

		FY2022	FY2023	FY2024	FY2025
	<b>Prior Estimate</b>	1.0 ¢		1.6 ¢	
Option 1	<b>GO Bond Approach</b>	-		2.45 ¢	
Option 2	<b>LOBs Approach</b>	-		2.95 ¢	

*Resulting effect is increase in projected FY24 tax increase for both County funding options*

# Considerations

- ★ **Policy metrics and tax impacts are subject to change as further data inputs are updated (ie, Capital Programs)**
- ★ **November 2020 Ballot**
  - Presidential election
  - Statewide and local elections
  - Anticipated City of Raleigh referenda (Affordable Housing; Parks)

# Review and Recommendation



Model updated for FY19 actuals  
Assumptions revised  
Update of Capital Funding in process



No tax increase needed in FY22  
Existing capacity can support WCPSS FY22-  
FY23 assumed capital needs



Schools funding options: GO Bond vs LOBs



Staff recommends LOBs funding approach  
Minimal cost differential between two options  
Avoid ballot crowding

# Next Steps

- **Today**

- Staff answers Board questions
- Board chooses funding approach for Schools FY22-FY23

*or*

- Board requests staff provide further information in March



# Questions