Debt and Capital Update

Meeting Capital Needs While Maintaining AAA Ratings

Todd Taylor, Debt Manager

WAKE COUNTY
NORTH CAROLINA

Agenda

PAYGO and Debt Background

Debt Policies and Guidelines Summary

Debt and Capital Model Update

Assumed Capital Funding FY22-FY28

Debt Activity on Horizon

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	Debt
✓ Smaller size and cost ✓ Short useful life and benefit ✓ Examples include technology, minor renovations, and FF&E	✓ 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 should each pay a share over time

Types of debt issued by County

General Obligation Bonds

- ❑ Voter authorized
- ❑ Lowest cost
- ❑ Backed by full faith and credit of County
- ❑ Permanent and long-term (i.e., 20 years)

Example: Parks and Recreation projects

Draw Programs

- ❑ Board authorized
- ❑ Cost depends on structure and term
- ❑ Temporary and short-term (i.e., 4 years)

Example: Schools projects

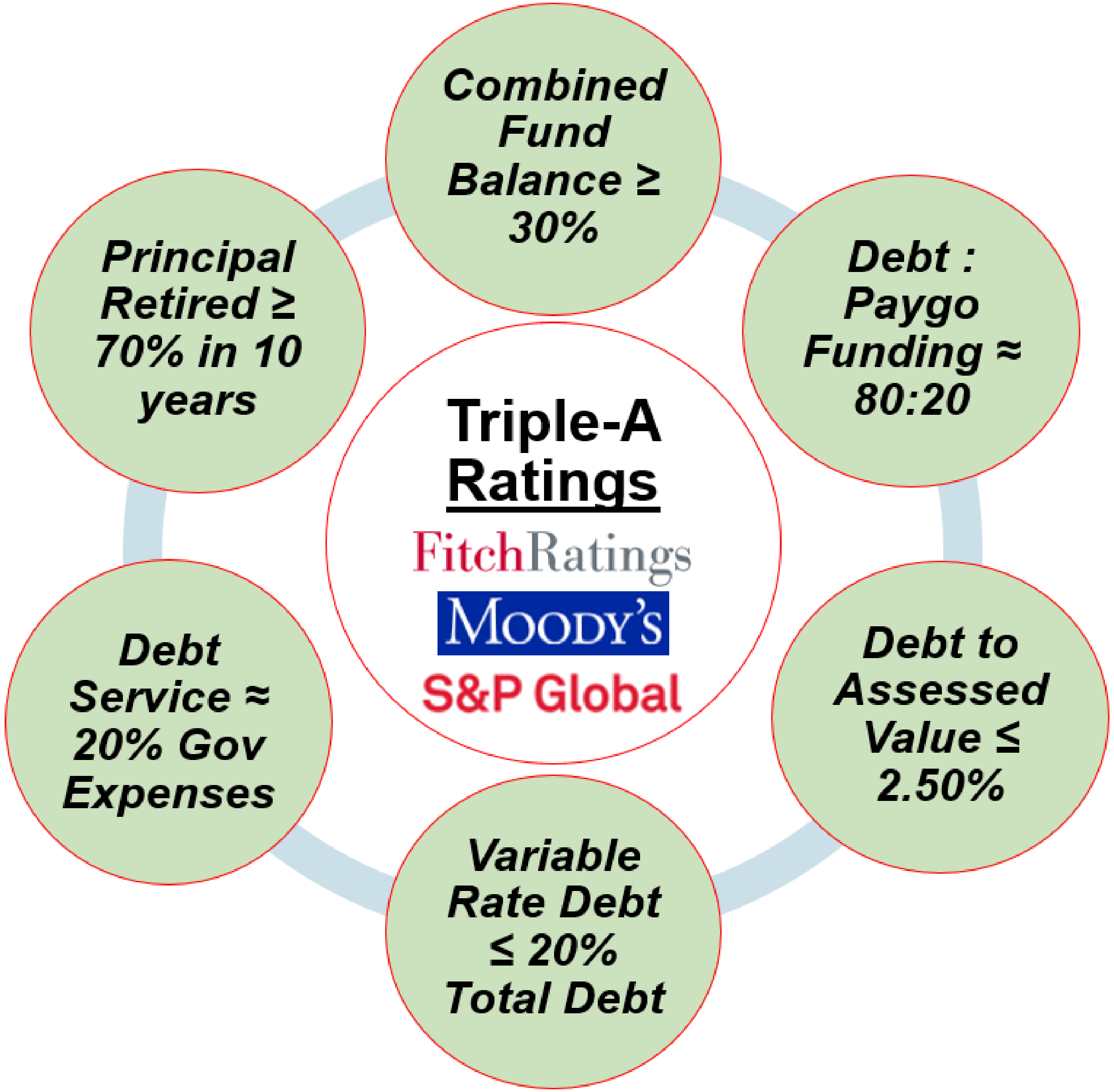
Limited Obligation Bonds

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

Example: WC 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



Comprehensive Financial Model

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)

Changes in Model Revenue Assumptions

At 6/30/20	FY2022	FY2023	FY2024	FY2025*	FY2026	FY2027	FY2028
Property Tax Rate - Total	60.00	60.00	63.95	58.24	58.24	58.24	58.24
Property Tax Rate - Dedicated for Capital	18.57	18.57	22.52	20.51	20.51	20.51	20.51
Property Tax Growth	2.00%	2.00%	2.00%	12.00%	2.00%	2.00%	2.00%
Property Tax Collection	99.65%	99.65%	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	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**revaluation yr*

At Retreat 4/5/21	FY2022	FY2023	FY2024	FY2025*	FY2026	FY2027	FY2028
Property Tax Rate - Total	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 Growth	1.28%	2.00%	2.00%	12.00%	2.00%	2.00%	2.00%
Property Tax Collection	99.25%	99.65%	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%

**revaluation yr*

Changes noted in Red

Changes in Model Expense Assumptions

At 6/30/20	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
GO Draw Prog - Variable Rate (Short term debt)	1.75%	1.55%	1.55%	1.55%	1.55%	1.55%	1.55%
GO Bonds - Fixed Rate (Long term debt)	3.50%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
GO Bonds - Amortization Term (Yrs)	17	19	19	19	19	19	19
LOBs Draw Prog - Variable Rate (Short term debt)	1.75%	1.55%	1.55%	1.55%	1.55%	1.55%	1.55%
LOBs - Fixed Rate (Long term debt)	3.75%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
LOBs - Amortization Term (Yrs)	17	19	19	19	19	19	19

At Retreat 4/5/21	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

Changes noted in Red

Other Model Factors

- FY20 Fund Balance beat projection
  - Revenues over Budget / Expenses under Budget
- Additional $12M one time reconciliation of FY21 transfer to Debt Service in recognition of strong Sales Tax results
- 2021 LOBs sale
  - Record low rate - actual debt service replaced assumed debt service

Capital Funding Updates for FY22 to FY28

- Outlook in Model has improved
- Relevant changes to Capital Funding assumptions
  - ✓ Schools $10 million cash restored ($5M in FY22; FY23)
  - ✓ Wake Tech $4 million cash restored ($2M in FY22; FY23)
  - ✓ County projects $25 million cash restored in FY22-FY27
  - ✓ Libraries
    - Admin Building renovation with debt and cash
    - 6-yr $75M bond added for projects in FY26 thru FY31
  - ✓ Certain County projects now cash funded to improve debt ratios

Assumed Capital Funding in the Model

(in 000's)							
Capital Program:	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
DEBT							
WCPSS	289,115,000	294,950,000	286,890,000	270,600,000	347,560,000	274,540,000	282,915,000
WTCC	91,373,000	80,611,000	86,570,000	86,720,000	86,770,000	85,820,000	87,050,000
PGROS		22,150,000	21,700,000	15,300,000	19,120,000		
Libraries					5,004,000	12,750,000	27,630,000
Human Services (LOBs)		49,500,000	30,500,000	15,500,000			
Other County CIP (LOBs)			11,700,000	30,000,000		12,906,000	
DEBT Total	$ 380,488,000	$ 447,211,000	$ 437,360,000	$ 418,120,000	$ 458,454,000	$ 386,016,000	$ 397,595,000
PAYGO							
WCPSS	58,230,000	53,650,000	61,105,000	62,800,000	70,120,000	72,250,000	74,420,000
WTCC	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	8,000,000	8,500,000
Human Services; Other	18,000,000	7,240,000	600,000		600,000	2,000,000	700,000
Other County CIP	38,718,000	39,645,000	41,782,000	42,510,000	43,513,000	44,400,000	45,292,000
PAYGO Total	$ 122,448,000	$ 108,035,000	$ 110,987,000	$ 112,810,000	$ 121,733,000	$ 126,650,000	$ 128,912,000
TOTAL FUNDING	$ 502,936,000	$ 555,246,000	$ 548,347,000	$ 530,930,000	$ 580,187,000	$ 512,666,000	$ 526,507,000
Estimated Tax Levy			**2.00 ¢**		**.30 ¢**		

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 6/30/20	Goal	2022	2023	2024	2025	2026	2027	2028
Fund Balance Ratio	≥ 30%	32.8%	31.2%	30.8%	30.5%	31.8%	34.7%	34.7%
% Debt Paid in 10 Years	≥ 70%	71%	70%	70%	71%	71%	72%	72%
Debt / Capital Ratio	Strive for 80 / 20	81%	84%	80%	79%	79%	75%	75%
Debt / Assessed Value Ratio	≤ 1.75%	1.40%	1.49%	1.54%	1.45%	1.50%	1.53%	1.53%
Debt Service as % Total Expenditures	Strive for ≤ 20%	19%	20%	21%	22%	20%	20%	20%

At BOC Retreat 4/5/21	Goal	2022	2023	2024	2025	2026	2027	2028
Fund Balance Ratio	≥ 30%	35.5%	33.8%	32.6%	31.3%	31.6%	32.7%	32.6%
% 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%	19%	19%	21%	22%	20%	20%	21%

Debt Activity on the Horizon

FY21 Debt activity remaining

- June – BOC authorization of new GO draw program for WTech
    - Final 2 years of voter authorized 2018 bond
    - $172 million debt funding for appropriations FY22 and FY23
- June – BOC authorization of new LOBs draw program for Schools
    - BOC did not pursue referendum in Nov 2020
    - $584 million debt funding for appropriations FY22 and FY23

FY22 Debt activity

- Aug 2021 – BOC appropriation of FY22 debt funding for Schools and WTech
- Jan/Feb 2022 – Discussions begin for bond questions on Nov 2022 ballot
    - Schools $558 million 2-yr Bond for FY24 and FY25 debt appropriations
    - WTech $346 million 4-yr Bond for FY24 through FY27 debt appropriations
- Mar/Apr 2022 – GO Refunding Bonds to take out GO draw program balances

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 (Short-Term Draw Programs)

- 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