

Debt Service

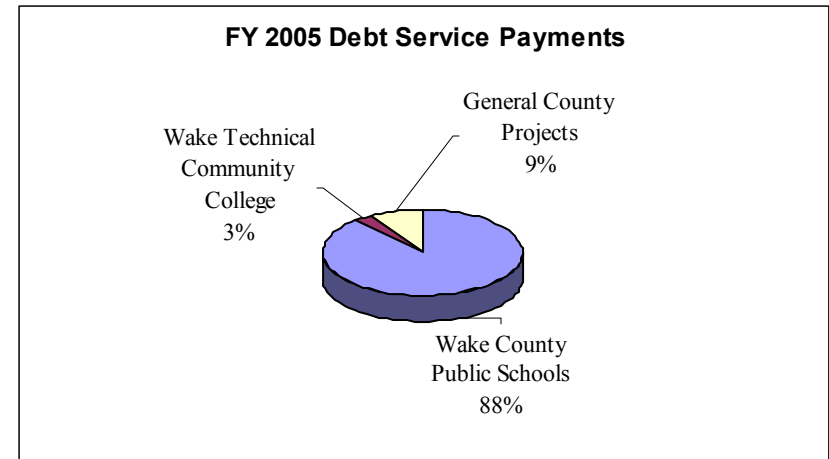
Wake County issues long-term debt under Constitutional and Legislative law to leverage taxpayer dollars to meet the capital needs of its citizens. Long-term capital planning, combined with a debt affordability model that assess the future impact of plan variables, is a strong management tool that is key to Wake County's continued success as a "AAA" government, as determined by the three rating agencies.

Debt service payments are made routinely for interest on long-term debt outstanding and to retire debt principal as it matures. Interest expenditures are annual costs that are directly proportional to the principal amount of debt outstanding. As of June 30, 2004 the outstanding general obligation principal indebtedness of the County totals \$1.1 billion. During fiscal year 2004 the County issued \$138 million of fixed rate bonds for schools (\$101 million), criminal justice (\$20 million), libraries (\$17 million) and \$124 million of variable rate debt for schools. In

Agency	Amount
Wake County Public Schools	\$104,677,115
Wake Technical Community College	\$3,559,265
General County Projects	\$10,149,328
Total FY 2005 Debt Service	\$118,385,708

addition to this total of \$262 million new debt principal over \$83 million of old debt was refunded and replaced with new debt at lower interest costs. The County also issued \$9 million to refinance Five County Stadium from taxable to tax-exempt bonds.

Since a common debt service management practice is to minimize the pressures for additional resources each year, the pattern of debt service payments for long-term debt in Wake County is designed so total annual debt service requirements do not vary materially from year to year. The budget for debt service payments for fiscal year 2004 totaled \$117,853,709.



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Debt Policies

The ability of Wake County to issue debt in the market place with a AAA bond rating saves the citizens millions of dollars by allowing the County to issue debt with a lower interest rate than non-AAA units.

Debt Planning Guidelines

Provide capital facilities as needed.

Preserve the County's AAA bond rating.

Ensure sufficient flexibility to meet future obligations and take advantage of opportunities.

The County will maintain a debt affordability model that assesses the future impact of the current bond programs as well as the dedicated funding stream used to finance the capital program. This model provides the County with a forecast of future debt capacity and associated debt service payments.

The County will maintain a CIP budget planning cycle of at least seven years. This will provide management the ability to plan and fund needed capital facilities.

The following revenues are dedicated to the CIP model:

16.5 cents of the ad valorem property tax;

The portion of Article 40 and 42 of sales tax that are statutorily-dedicated to school capital;

Any federal, state or local grants that are used for capital improvement;

Any General Fund unrestricted interest earnings. The County will dedicate unrestricted General Fund interest income to the Debt Service Fund, which it uses to account for all its debt service payments. This dedication matches interest earnings on investments with interest expense on variable rate debt as economic conditions vary.

Debt Service Guidelines

Many ratios and rankings are reviewed by the rating agencies. The

County does not directly control most of the economic indicators used by the rating agencies, such as per capita wealth, growth of the labor force and unemployment rates; however, several are controlled by management and are addressed below. The County will compute the following debt calculations each year and benchmark against other AAA-rated units. When available, statistics are included with ratios from the 37 AAA-rated counties nationwide. Although the Board of Commissioners has not formally adopted specific debt limits, these standards provide the framework for developing the County's Capital Improvement Program.

Guideline 1: The Debt Service Fund will maintain a fund balance that is no less than the subsequent fiscal year's debt service payments through November. This limitation currently represents 19% of debt service payments. **The debt model currently meets this guideline.**

Guideline 2: The County's seven-year capital plan should be funded with debt funding comprising 70% - 85% of the total funding; cash ("pay-as-you-go") funding should make up the remaining 15% - 30%. Pay-as-you-go funding provides the County with a flexible cash flow so that the debt can be issued at the most opportune market time rather than when construction payments are due. A pay-as-you-go component to the capital program is a significant element that contributes to the financial integrity of the County and its ability to maintain a AAA bond rating. **The debt model currently meets this guideline.**

Guideline 3: To promote asset and liability management, the County will issue variable rate debt. However, the variable rate debt component should not exceed 20% of the County's total outstanding debt. The concept of this management tool is that the County matches interest income from investments with interest expense on the variable rate debt in the debt service fund. These revenue and expenditure (or asset and liabilities) move in the same direction as they react to market conditions. This concept is used by many "AAA" units to take advantage of historically lower variable debt rates while reducing the stress on budgeting. **Wake County currently has 19.7% in variable rate debt.**

Guideline 4: The average AAA-rated entity repays 70% of bond principal within 10 years, one of the factors considered by the rating agen-

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cies. **Wake County will have 63% of bond principal paid within 10 years.**

Guideline 5: The amount of general obligation net debt (including municipal net debt) per capita should be consistent with other AAA units. Per capita debt is considered to be a basic benchmark that depicts a jurisdiction's burden on the general population. Net per capita debt at June 30, 2003 was \$1,267 and will be monitored annually.

	AAA Rated Counties				
	Wake	Average	Median	High	Low
Net Debt per capita	\$1,267	\$1,959	\$2,074	\$4,509	\$215

Guideline 6: The combined County and municipal debt should not exceed four percent of the countywide tax base. Based on historical funding levels as well as standards used by credit rating analysts, it is advisable that the County not incur a level of total outstanding general obligation debt that exceeds four percent of the tax base. This level of debt includes debt issued by Wake county government as well as debt issued by the various municipalities within the boundaries of Wake County. Municipal debt is included since the municipal taxpayer bears the burden of debt issued by the respective municipal government and by county government (in North Carolina property within municipal boundaries is also within the county boundaries). Furthermore, credit rating analysts typically consider this total debt level in a layered system of governments such as exist in Wake County. As of June 30, 2003, the combined debt was approximately \$1,128 million or 1.7% (percent) of the countywide tax base.

	AAA Rated Counties				
	Wake	Average	Median	High	Low
County and municipal debt as a percentage of tax base	1.7%	2.3%	2.0%	6.1%	0.1%

Guideline 7: Wake County government's net outstanding debt should not exceed 2.5% of the countywide tax base. North Carolina state law permits local governments to issue debt up to eight percent of the total assessed valuation. Consistent with the County's desire to maintain a AAA bond rating, Wake County has adopted 2.5% as a guideline. **The County's debt per assessed valuation is currently at 1.71%.**

Guideline 8: Wake County's annual debt service payments should not exceed 20% of the general fund and debt service budget.

The County's annual debt service payment will not exceed 20% of the General Fund and Debt Service Fund budgets. (Note: Divide total annual debt service payments by the totals of the General Fund expenditure budget plus the Debt Service Fund expenditure budget, less the transfer between the two funds.) This computation is a ratio that rating agencies use to judge the government's ability to make debt payments and to continue to respond to operating priorities. As of June 30, 2003 Wake County's debt service payments were 13.2% of the general and debt service fund budgets.

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