

# DEBT SERVICE

## Fund Summary - Debt Service

		<b>FY 2005 Actual</b>	<b>FY 2006 Adopted Budget</b>	<b>FY 2006 Current Budget</b>	<b>FY 2007 Adopted Budget</b>
Bond Principal	\$	70,642,456	70,480,946	70,480,946	71,522,353
Bond Interest		44,511,644	48,758,825	48,758,825	55,485,859
Bond Fees and Issuance Costs		123,829	1,182,001	1,182,001	877,700
Personnel Services		0	0	75,000	104,501
Reserved for Future Debt Service		0	2,049,228	2,049,228	2,078,587
<b>Expenditure Totals</b>	\$	<b>115,277,929</b>	<b>122,471,000</b>	<b>122,546,000</b>	<b>130,069,000</b>
Transfer from General Fund - Ad Valorem Tax	\$	97,453,000	95,271,000	95,271,000	102,866,000
Transfer from General Fund - Sales Tax		17,785,000	18,737,000	18,737,000	18,500,000
Transfer from Major Facilities Fund		991,000	991,000	991,000	991,000
Transfer from Fire Tax District		0	472,000	472,000	472,000
Interest Income		5,126,014	7,000,000	7,000,000	7,240,000
Appropriated Fund Balance		0	0	75,000	0
<b>Revenue Totals</b>	\$	<b>121,355,014</b>	<b>122,471,000</b>	<b>122,546,000</b>	<b>130,069,000</b>
<b>Number of FTEs</b>		<b>0.00</b>	<b>0.00</b>	<b>1.00</b>	<b>1.00</b>

## Debt Service Expenditures by Entity

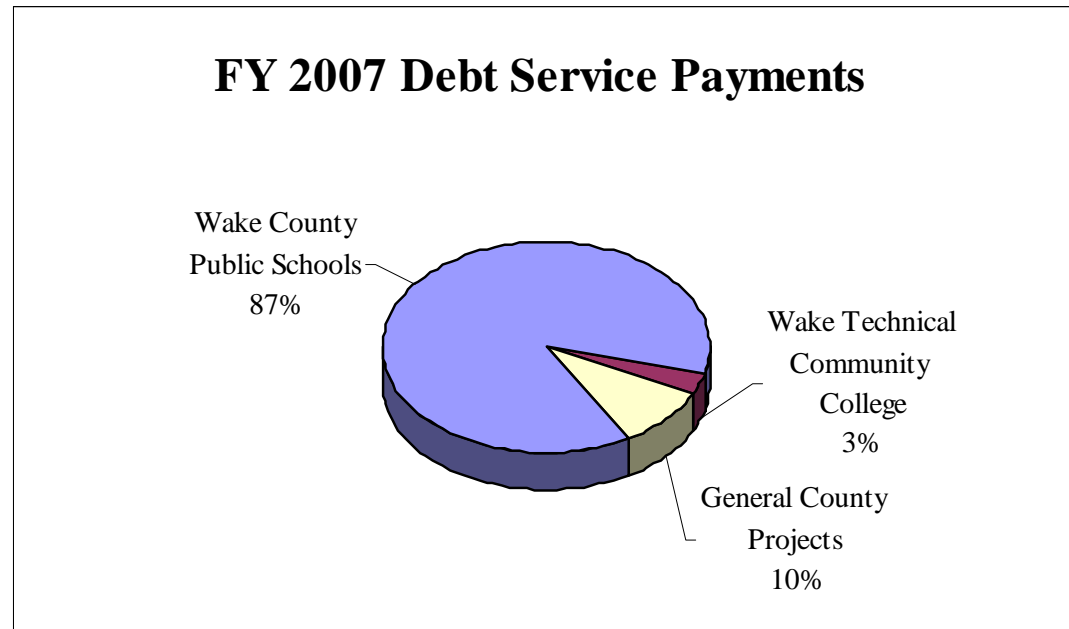
		<b>FY 2005 Actual</b>	<b>FY 2006 Adopted Budget</b>	<b>FY 2006 Current Budget</b>	<b>FY 2007 Adopted Budget</b>
Wake County Public School System	\$	101,410,735	107,027,252	107,102,252	113,655,148
Wake Technical Community College		3,598,357	3,458,551	3,458,551	3,976,317
Wake County Government		9,227,260	8,944,969	8,944,969	9,367,948
Five County Stadium		1,041,577	991,000	991,000	991,000
Reserved for Future Debt Service		0	2,049,228	2,049,228	2,078,587
<b>Expenditure Totals</b>	\$	<b>115,277,929</b>	<b>122,471,000</b>	<b>122,546,000</b>	<b>130,069,000</b>

## 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, 2005 the outstanding general obligation principal indebtedness of the County totals \$1.05 billion. During fiscal year 2005 the County replaced portions of the 1996, 1997, 2000, 2001B bonds with new bonds producing net present value savings of \$5.8 million.

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 2007 totals \$130,069,000.



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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 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 Community Improvement Plan.

**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 long-term variable rate debt component should not exceed 25% 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. This ratio was recently raised to 25% from 20% as a result of the County's plans to issue short-term variable rate debt to finance construction cost over the next two years. Careful study of the County's strong investment hedge and conversations with financial ad-

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visors determined that there was minimal risk to the County. The delay of issuance of fixed rate debt will increase the Counties ratio to 25% of the next several years. Current plans have the County issuing fixed rate debt in FY 2008 which will drop this ratio back to 20%. **Wake County currently has 21.3% 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 agencies. **Wake County will pay 66% of bond principal paid within 10 years.**

	Wake	AAA Rated Counties			
		Average	Median	High	Low
Net Debt per capita	\$1,323	\$1,959	\$2,074	\$4,509	\$215

**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, 2005 was \$1,323 and will be monitored annually.

**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, 2005, the combined debt was approximately \$1,312 million or 1.7%

(percent) of the countywide tax base.

**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 1.39%.**

**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, 2005 Wake County's debt service payments were 15.7% of the general and debt service fund budgets.

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

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## Schedule of Long-Term Debt Maturities and Annual Debt Service Requirements for Governmental Activities June 30, 2005

Bonded Debt Fiscal Year Ended June-30	PUBLIC SCHOOLS		OTHER		TOTAL	
	Principal	Principal and Interest	Principal	Principal and Interest	Principal	Principal and Interest
2006	\$ 61,244,540	105,089,955	8,390,460	12,309,034	69,635,000	117,398,989
2007	61,821,739	99,181,665	7,328,261	10,866,668	69,150,000	110,048,333
2008	61,690,859	96,222,376	7,414,141	10,617,273	69,105,000	106,839,649
2009	61,800,447	93,413,445	7,424,553	10,286,288	69,225,000	103,699,733
2010	61,739,808	90,445,086	7,415,192	9,943,010	69,155,000	100,388,096
2011	62,474,957	88,275,509	6,715,043	8,909,112	69,190,000	97,184,621
2012	63,498,975	86,373,422	6,551,025	8,430,939	70,050,000	94,804,361
2013	63,359,044	83,173,960	6,725,956	8,291,736	70,085,000	91,465,696
2014	62,993,035	79,936,519	6,971,965	8,231,677	69,965,000	88,168,196
2015	62,890,240	76,995,982	7,034,760	7,976,113	69,925,000	84,972,095
2016-2020	322,125,158	352,325,026	13,774,842	15,123,475	335,900,000	367,448,501
2021-2022	17,000,000	17,377,571	1,100,000	1,171,500	18,100,000	18,549,071
<b>Total Bonded Debt</b>	<b>\$ 962,638,802</b>	<b>1,268,810,516</b>	<b>86,846,198</b>	<b>112,156,825</b>	<b>1,049,485,000</b>	<b>1,380,967,341</b>

## Other Long-Term Debt

Total capitalized leases, clean water revolving loans, installment purchases, and qualified zone academy bonds:

2006	\$ 163,461	-	1,172,723	1,577,708	1,336,184	1,577,708
2007	163,461	-	1,187,477	1,557,744	1,350,938	1,557,744
2008	163,461	-	941,662	1,275,936	1,105,123	1,275,936
2009	163,461	-	843,954	1,166,057	1,007,415	1,166,057
2010	163,461	-	879,413	1,161,507	1,042,874	1,161,507
2011-2015	817,305	-	4,551,126	5,775,073	5,368,431	5,775,073
2016-2017	326,928	-	77,689	406,093	404,617	406,093
Total Other Long-Term Debt	1,961,538	-	9,654,044	12,920,118	11,615,582	12,920,118
<b>Total Long- Term Debt</b>	<b>\$ 964,600,340</b>	<b>1,268,810,516</b>	<b>96,500,242</b>	<b>125,076,943</b>	<b>1,061,100,582</b>	<b>1,393,887,459</b>

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### Computation of Legal Debt Margin June 30, 2005

Total Assessed Value	\$	71,124,922,096	
Less: Current Year Abatements		<u>(476,342,219)</u>	
Assessed Value of Taxable Property	\$		<u>70,648,579,877</u>
Debt Limit - Eight Percent (8%) of Assessed Value			5,651,886,390
Amount of Debt Applicable to Debt Limit:			
Total Bonded Debt			<u>1,049,485,000</u>
<b>Legal Debt Margin</b>	<b>\$</b>		<b><u>4,602,401,390</u></b>