

Debt Service

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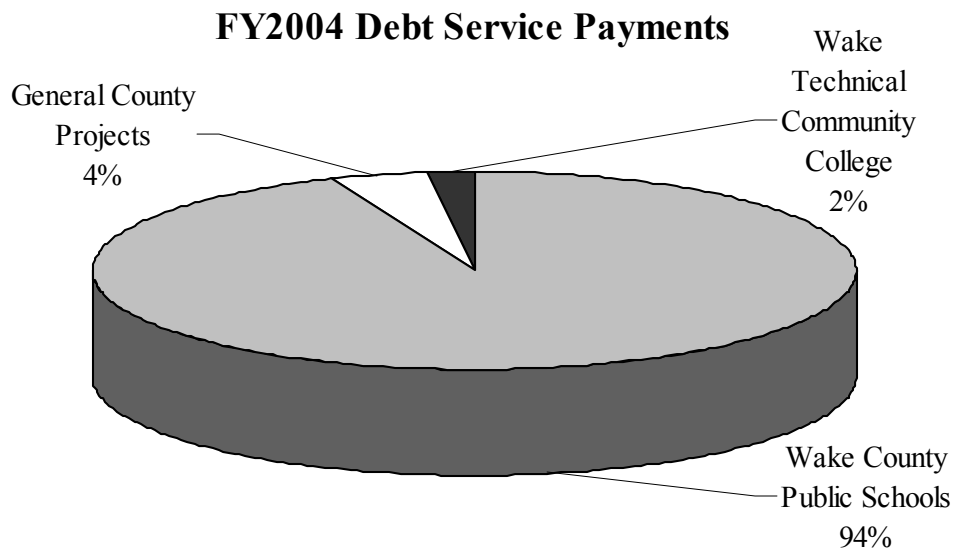
Debt Management

Debt Service

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, 2003 the outstanding general obligation principal indebtedness of the County totals \$926.6 million. This includes the issuance of \$117 million of fixed rate bonds for schools, open space, and Wake Technical Community College, and \$100 million of variable rate bonds for schools. In addition to this total of \$217 million new debt principal over \$26 million of old debt was refunded and replaced with new debt at lower interest costs. Finally, the County issued \$3 million in Qualified Zone Academy Bonds, an interest free debt supported by the federal government.

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 2003 totals \$100,497,108.

Agency	Amount
Wake County Public Schools	\$91,870,430
Wake Technical Community College	\$3,571,879
General County Projects	\$5,054,799
Total FY2004 Debt Service	\$100,497,108



Debt Management

DEBT POLICIES

The strategy used to determine the extent to which debt should be applied is dependent upon established debt management criteria that address several goals:

- Provide essential facilities in a timely fashion
- Preserve the County's financial integrity and strong fiscal position
- Ensure sufficient flexibility to meet future obligations or opportunities

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 amount of general obligation debt per capita should be in line with other AAA units.

Per capita debt is currently \$1,319 and will be monitored annually. Per capita debt is considered to be a basic benchmark that depicts a jurisdiction's burden on the general population.

Guideline 2: The combined County and municipal debt should not exceed four percent of the countywide tax base.

Based on historical funding levels, coupled with 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 its 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. As of June 30, 2002, the combined debt was approximately \$939 million or 1.4 percent of the countywide tax base.

Guideline 3: Wake County government's outstanding debt should not exceed two percent of the countywide tax base.

Wake County must coordinate its debt management policies with the municipalities in the county in order to stay within the four percent combined debt limit. The population of the non-municipal areas is currently 26.9% of the total county population. For planning purposes it is suggested that the Wake County share of the total county wide debt be about half of the total four percent debt capacity, or two percent. North Carolina state law permits local governments to issue debt up to eight percent of the total assessed valuation. As of June 30, 2003, Wake County has \$926.6 million of outstanding general obligation principal debt, which comprises 1.4 percent of total assessed valuation.

Guideline 4: Wake County's annual debt service payment should not exceed fifteen percent of the general fund and debt service budget.

In general, rating agencies consider a debt burden high when debt service payments represent 15%-20% of the combined operating and debt service fund expenditures. Since the debt service payments are legal obligation of the County, the County must be able to support those payments yet continue to be able to respond to any changing priorities. Thus, the targeted benchmark is fifteen percent of the general fund and debt service budget. In fiscal year 2003-2004, the ratio of debt service payments to general fund/debt service budget is 12.4 percent.

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Guideline 5: Debt service funding vs. pay-as-you-go funding should reside between 70%-85% in the seven-year-capital projects model.

This criterion has been considered to be one that relates more to philosophy of who pays than to fiscal management. As indicated, annual debt service payments are legal obligations; however, annual appropriations for capital improvements provide flexibility in the decision-making process for approving capital projects each year. In an effort to maintain capital investments in reasonable proportion to the overall budget, the limit of annual debt service funding should fall between 70%-85% in the seven-year capital projects model.

Other Debt Management Guidelines:

- Bonds shall be issued only for capital improvement projects having a cost of at least \$100,000 and having a useful life of at least 10 years.
- The term of any bond issue will not exceed the useful life of any bond issue
- The County will maintain triple-A bond ratings with Moody's, Standard and Poor's and Fitch.
- Revenue sources will not be assigned to specific projects unless required to by funding source. The Finance Department will use the funding that best benefits the County. Generally funds will be used in the following order unless regulations require otherwise: 1) Bond Proceeds for any related bond purpose, 2) Federal Funds, 3) State Funds, 4) Local Funds.
- To promote the asset and liability management the County will issue variable rate debt as part of its portfolio not to exceed 20% of total debt.
- Interest earnings for the general fund will be a funding stream to the debt service fund. This will allow interest earnings on investments and interest expense on variable rate debt to move together with economic conditions.

The County will revise the above ratios periodically due to changing growth and economic conditions. All revision made to ratios or policy will reflect behavior designed to maintain the County triple- A status.