

*Fiscal Year 2002-2003  
Adopted Budget*

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*DEBT SERVICE*

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Debt Service

Debt Management

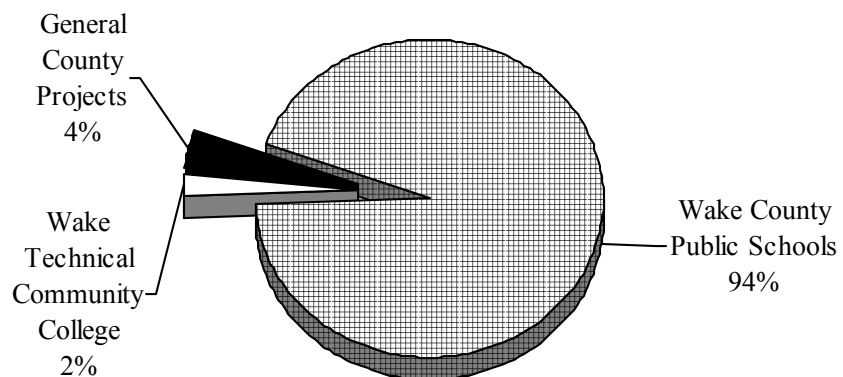
## Debt Service

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, 2002 the outstanding general obligation principal indebtedness of the County totals \$782,130,000. All bonds authorized before November 2000 have been issued except for \$11 million for Wake Technical Community College, is planned to be issued in January 2003. On November 7, 2000 Wake County held a successful bond referendum that authorized \$500,000,000 debt for schools, \$20,000,000 for criminal justice facilities, and \$15,000,000 for open space preservation. The first block of schools bonds for \$150,000,000 were issued in January 2001. Another \$188 million worth of bonds were sold in March 2002, of which \$175 million were designated for schools, \$8 million for Wake Technical Community College, and \$5 million for open space.

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 \$88,211,285.

<b>Agency</b>	<b>Amount</b>
Wake County Public Schools	\$82,694,059
Wake Technical Community College	\$1,668,150
General County Projects	\$3,849,076
<b>Total FY2003 Debt Service</b>	<b>\$88,211,285</b>

**FY2003 Debt Service Payments**



## *Debt Management*

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

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

Although the Wake County Board of Commissioners has not formally adopted specific debt limits, these standards are considered when developing the County's capital improvement program.

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### **LIMIT #1**

**The amount of general obligation debt should not exceed \$1,600 per capita.**

Per capita debt should not exceed \$1,600 in order to balance this criterion with other debt management criteria. Per capita debt is considered to be a basic benchmark that depicts a jurisdiction's burden on the general population.

### **LIMIT #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, 2001, the combined debt was approximately \$808 million or 1.4 percent of the countywide tax base.

### **LIMIT #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, 2002, Wake County has \$782 million of outstanding general obligation principal debt, which

comprises 1.2 percent of total assessed valuation. At the current level of assessment (\$65.6 billion), Wake County could legally incur up to \$5.25 billion of debt (or an additional \$4.5 billion more than is currently outstanding) under state law.

**LIMIT #4**

**Wake County's annual debt service payment should not exceed fifteen percent of the general fund budget.**

A proportion of funding that is annually devoted to debt service payments is established to assure that there is sufficient financial flexibility. 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 budget. In fiscal year 2002-2003 the ratio of debt service payments to general fund budget is 14 percent.

**LIMIT #5**

**Annual debt service payments should not exceed 75% of the total amount of annual appropriations dedicated to capital project financing.**

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 payments should not exceed 75% of the total amount of annual funding appropriated for capital projects, debt service, or additional operating budget expenses related to new projects. The annual debt service payments are approximately 55.9% of the total \$137.2 million in appropriations dedicated to capital project financing. With the adoption of the seven-year CIP in August of 2000, the Board of Commissioners made the decision to shift capital financing from a 1:1 ratio of pay-as-you-go: debt service to a 1:3 ratio. This policy shift is consistent with policies of other local government jurisdictions that maintain a AAA bond rating.

**OTHER DEBT  
MANAGEMENT  
POLICIES:**

Completion of capital projects funded with bond proceeds shall not exceed the life of the bonds issued to fund that project.

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.

Interest income, an elastic revenue source tend to vary from year to year based on the amount of unspent capital funds available for investment and upon the actual interest rates available, shall be credited to the capital funds for future appropriation.