

DEBT SERVICE

Fund Summary - Debt Service

		FY 2004 Actual	FY 2005 Adopted Budget	FY 2005 Current Budget	FY 2006 Adopted Budget
Bond Principal	\$	61,348,461	70,642,456	70,642,456	70,480,946
Bond Interest		40,849,704	47,211,252	47,211,252	48,758,825
Bond Fees and Issuance Costs		162,028	532,000	532,000	1,182,001
Reserved for Future Debt Service		0	0	0	2,049,228
Expenditure Totals	\$	102,360,193	118,385,708	118,385,708	122,471,000
Transfer from General Fund - Ad Valorem Tax	\$	83,655,000	97,453,000	97,453,000	95,271,000
Transfer from General Fund - Sales Tax		16,693,000	17,785,000	17,785,000	18,737,000
Transfer from Major Facilities Fund		0	991,000	991,000	991,000
Transfer from Fire Tax District		0	0	0	472,000
Interest Income		3,023,199	2,156,708	2,156,708	7,000,000
Revenue Totals	\$	103,371,199	118,385,708	118,385,708	122,471,000
Number of FTEs		0.00	0.00	0.00	0.00

Debt Service Expenditures by Entity

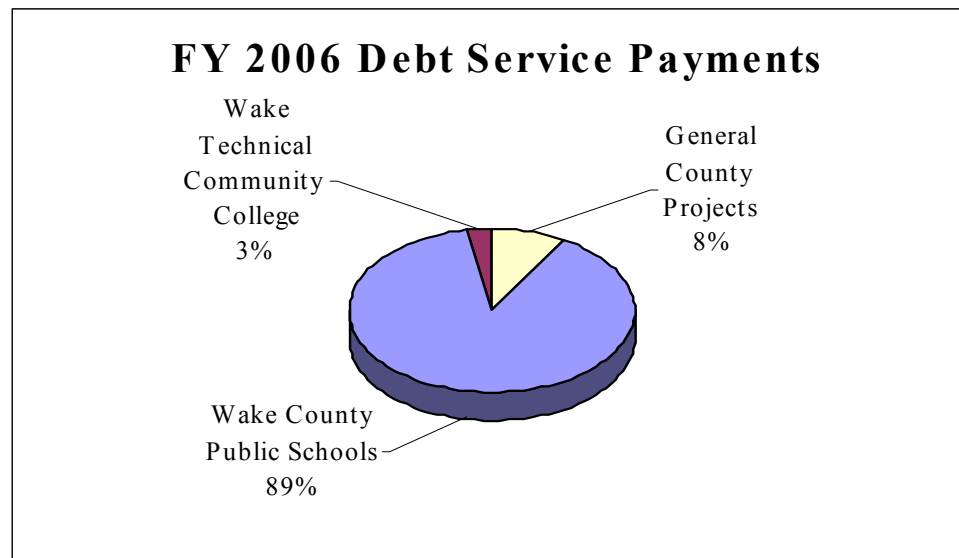
		FY 2004 Actual	FY 2005 Adopted Budget	FY 2005 Current Budget	FY 2006 Adopted Budget
Wake County Public School System	\$	92,793,424	104,677,115	104,677,115	107,027,252
Wake Technical Community College		4,356,471	3,559,265	3,559,265	3,458,551
Wake County Government		5,210,298	10,149,328	10,149,328	9,935,969
Reserved for Future Debt Service			0	0	2,049,228
Expenditure Totals	\$	102,360,193	118,385,708	118,385,708	122,471,000

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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 2004 totaled \$119,239,771.



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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 Capital 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 have 66% of bond principal paid within 10 years.**

	AAA Rated Counties				
	Wake	Average	Median	High	Low
Net Debt per capita	\$1,478	\$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, 2004 was \$1,478 and will be monitored annually.

	AAA Rated Counties				
	Wake	Average	Median	High	Low
County and municipal debt as a percentage of tax base	1.9%	2.3%	2.0%	6.1%	0.1%

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,

2004, the combined debt was approximately \$1,312 million or 1.9% (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 1.57%.**

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 12.3% of the general and debt service fund budgets.

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Schedule of Long-Term Debt Maturities and Annual Debt Service Requirements for Governmental Activities June 30, 2004

Bonded Debt Fiscal Year Ended June-30	PUBLIC SCHOOLS		OTHER		TOTAL	
	Principal	Principal and Interest	Principal	Principal and Interest	Principal	Principal and Interest
2005	\$ 61,225,233	102,880,190	8,474,767	12,583,055	69,700,000	115,463,245
2006	61,194,540	98,646,620	8,390,460	12,305,284	69,585,000	110,951,904
2007	61,929,089	97,355,802	7,570,911	11,105,569	69,500,000	108,461,371
2008	61,959,865	96,014,140	7,540,135	10,727,684	69,500,000	106,741,824
2009	62,049,903	93,959,100	7,550,097	10,392,370	69,600,000	104,351,470
2010	61,959,865	90,987,136	7,540,135	10,044,635	69,500,000	101,031,771
2011	62,338,539	88,488,385	7,161,461	9,328,386	69,500,000	97,816,771
2012	63,946,756	87,242,789	6,353,244	8,188,297	70,300,000	95,431,086
2013	64,134,256	84,386,219	6,165,744	7,698,627	70,300,000	92,084,846
2014	63,434,256	80,668,328	6,865,744	8,117,768	70,300,000	88,786,096
2015-2019	333,601,365	376,681,835	20,173,635	22,390,057	353,775,000	399,071,892
2020-2022	70,000,000	72,100,822	1,650,000	1,791,625	71,650,000	73,892,447
Total Bonded Debt	\$ 1,027,773,667	1,369,411,366	95,436,333	124,673,357	1,123,210,000	1,494,084,723

Other Long-Term Debt

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

2005	\$ -	-	1,359,070	1,604,479	1,359,070	1,604,479
2006	-	-	1,260,168	1,547,258	1,260,168	1,547,258
2007	-	-	1,268,952	1,534,524	1,268,952	1,534,524
2008	-	-	1,024,972	1,258,827	1,024,972	1,258,827
2009-2013	-	-	4,984,685	5,772,307	4,984,685	5,772,307
2014-2017	-	-	2,616,582	2,715,016	2,616,582	2,715,016
Total Other Long-Term Debt	-	-	12,514,429	14,432,411	12,514,429	14,432,411
Total Long-Term Debt	\$ 1,027,773,667	1,369,411,366	107,950,762	139,105,768	1,135,724,429	1,508,517,134

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Computation of Legal Debt Margin

Total Assessed Value	\$ 68,427,053,895	
Less: Current Year Abatements	<u>(437,525,662)</u>	
Assessed Value of Taxable Property		<u>\$ 67,989,528,233</u>
Debt Limit - Eight Percent (8%) of Assessed Value		5,439,162,259
Amount of Debt Applicable to Debt Limit:		
Total Bonded Debt		<u>1,123,210,000</u>
Legal Debt Margin		<u>\$ 4,315,952,259</u>