
DEBT MANAGEMENT

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DEBT SERVICE FUND

PROGRAM DESCRIPTIONS

Debt service expenditures include the City's general governmental debt obligations, special obligation bonds (SOBs), limited obligation bonds (LOBs), general governmental leasing debt payments, and the administrative expenses associated with bond ratings and issuances.

Debt service resources include property tax revenues (11.30 cents on the property tax rate), investment income on unrestricted governmental monies, 80% of the Article 40 one-half cent sales tax distribution, and one-third of the City's municipal ABC revenue collection.

OBJECTIVES AND ACHIEVEMENTS

General Obligation Debt per Capita: A municipality's general obligation debt, when expressed as an amount per capita, is used to measure the reasonableness of its debt. Generally, per capita debt of around \$600 is considered low; \$1,300 is considered high. Winston-Salem's June 30, 2021 net bonded debt per capita was \$722.

Debt Service as Percent of Expenditures: If annual debt service expenditures get too high, the City's expenditure flexibility is reduced. Debt service is a fixed cost, and its increase can indicate excessive debt and produce fiscal strain. The FY 2020-21 annual financial report shows Winston-Salem at 16%.

Legal Debt Margin: The City has a legal general obligation debt limitation not to exceed 8% of the total assessed valuation of the taxable property within the city's boundaries. This means that the total amount of bonds, notes, warrants, or any other type of general obligation debt issued or outstanding will not be greater than 8%. The FY 2020-21 annual financial report notes the City's net outstanding general obligation debt is \$188.2 million, which is 0.97% of the City's total assessed valuation of taxable property. This leaves a legal debt margin of approximately \$1.68 billion.

Credit Rating: The City's credit rating is an overall indicator of financial condition, quality of financial management, and local economic factors. Winston-Salem is rated AAA by Fitch, Moody's Investors Service, and Standard and Poor's Corporation.

EXPENDITURES AND REVENUES SUMMARY

EXPENDITURES BY TYPE	Actual FY 20-21	Budget FY 21-22	Adopted FY 22-23	Percent Change
Principal Retirement	\$19,426,621	\$23,345,090	\$25,016,390	7.2%
Interest Payments	11,328,625	11,745,750	15,933,740	35.7%
Fiscal Charges	356,771	142,000	142,000	0%
Administrative Expenses	47,774	56,560	64,350	13.8%
Payments to Forsyth County	345,624	343,400	343,400	0%
Property Tax Collection Fee	162,740	172,220	171,180	-0.6%
Transfer to Leasing Capital Projects Fund	700,000	0	0	N/A
Transfer to Downtown Ballpark Fund	0	532,370	526,010	-1.2%
Total Expenditures by Type	\$32,368,154	\$36,337,390	\$42,197,070	16.1%

DEBT SERVICE FUND

RESOURCES BY TYPE	Actual FY 20-21	Budget FY 21-22	Adopted FY 22-23	Percent Change
Property Taxes	\$25,335,224	\$24,793,230	\$25,582,830	3.2%
Sales Taxes	8,410,282	8,089,860	9,955,940	23.1%
ABC Allocation	1,120,654	906,940	1,120,650	23.6%
Interest Income	358,985	600,000	100,000	-83.3%
Interest Subsidy on Recovery Zone Bonds	1,832	0	0	N/A
Forsyth County	224,426	226,000	210,000	-7.1%
Other Revenues	7,128,190	1,959,470	2,139,620	9.2%
Transfers from General Fund				
Debt Service on Dell Project	400,000	400,000	400,000	0%
Lease Payment for Convention Center Capital	200,000	200,000	200,000	0%
City's Share of Debt Service on Wake Forest Innovation Quarter Infrastructure	190,830	190,830	190,830	0%
Debt Service on Bryce A. Stuart Municipal Building	1,119,400	1,097,680	1,311,580	19.5%
Transfer from Leasing Capital Projects Fund	700,000	0	0	N/A
Fund Balance Appropriation	0	0	985,620	N/A
Total Resources by Type	\$45,189,822	\$38,463,610	\$42,197,070	9.7%
Addition to Fund Balance	\$12,821,668	\$2,126,220	\$0	-100.0%

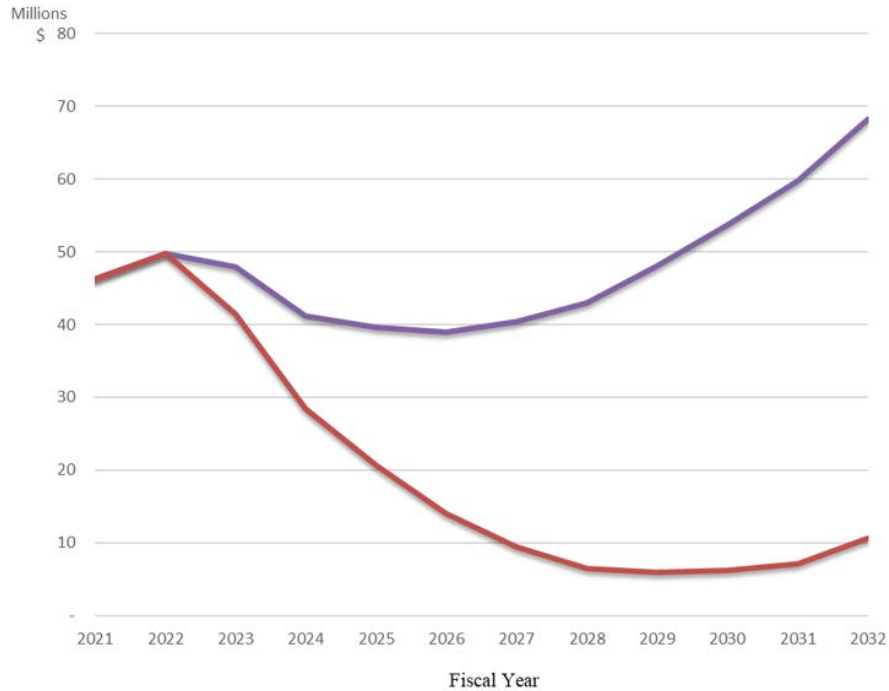
BUDGET HIGHLIGHTS

- Debt service fund expenditures increased \$5.9 million, or 16.1%, attributable to increased principal and interest payments for previously authorized debt.
- Projected sales tax and ABC allocation revenues in the debt service fund are increased to reflect the current growth trend. Sales tax is increased by \$1,866,080, or 23.1%, while the ABC allocation is increasing by \$213,710 or 23.6%.
- Interest income in the fund is decreased \$500,000, or 83.3%, based on current market conditions and expected returns.
- The debt service fund accumulates fund balance over time to make payments for principal and interest on general governmental debt. The FY 2022-23 budget includes an appropriation of fund balance (\$985,620) to meet annual debt service payment requirements.
- The following graph provides a multi-year outlook for the debt service fund that includes projected future debt issuances. The projection below assumes the issuance of all currently outstanding authorized general and limited obligation bonds (LOBs), as well as future 2/3rds capacity issue. The FY 2022-23 adopted budget includes a \$55 million LOBs package. The chart below shows scenarios for current fund balance projections (blue line) and with issuance of \$55 million in LOBs (red line).

DEBT SERVICE FUND

BUDGET HIGHLIGHTS - Continued

Debt Service Fund Reserves



**Blue line above represents debt service fund balance without the \$55 million LOBs package.*

***Red line above represents debt service fund balance with issuance of \$55 million in LOBs.*

- Listed below are the outstanding general obligation bonds and outstanding principal and interest requirements, as of June 30, 2022.

PROJECTED OUTSTANDING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2022

<u>Purpose of Bond Issue</u>	<u>Year of Issue</u>	<u>Original Issue Amount</u>	<u>Principal Balance</u>
Recreation, safety and streets	2012	2,955,000	1,455,000
Recreation, safety and streets	2014	3,945,000	2,345,000
Public improvement, recreation and streets	2016	3,810,000	2,945,000
Development, recreation, safety, and streets	2016	47,820,000	42,695,000
Refunding	2016	12,655,000	7,390,000
Public improvement, recreation and streets	2017	4,775,000	4,055,000
Public improvements, recreation, streets, & housing	2017	54,690,000	50,190,000
Refunding	2020	18,300,000	12,795,000
Refunding	2020	5,870,000	5,630,000
Recreation and Streets	2020	6,005,000	5,800,000
Streets, safety, recreation, housing & economic dev.	2020	44,140,000	44,140,000
Streets, safety, recreation, housing & economic dev.	2020	16,330,000	13,720,000
Total		\$235,550,000	\$193,160,000

DEBT SERVICE FUND

BUDGET HIGHLIGHTS - Continued

PROJECTED GENERAL OBLIGATION BONDS DEBT SERVICE REQUIREMENTS TO MATURITY AS OF JUNE 30, 2022

<u>Year</u>	<u>General Purpose</u>
2022	20,303,213
2023	20,321,658
2024	20,456,345
2025	17,951,545
2026-2030	80,031,560
2031-2035	68,845,347
2036-2040	36,019,243
Total	<u>\$263,928,911</u>

LEASING FUND

PROGRAM DESCRIPTION

Accumulates annual payments from City departments to make debt service payments to the lender.

The City borrows funds through an Equipment Lease and then internally leases to each department to fund the purchases. Departments pay lease payments that cover the interest and principal on the Equipment Lease over a five-year period with the addition of an annual interest payment at a rate of 1%.

Goals of the City's leasing program are as follows: (1) reduce acquisition costs of real and personal property for the City by providing a low cost leasing program through the periodic borrowing of an Equipment Lease (2) increase productivity by making the purchase and budget decision concentrate on 'what is needed to do work?' rather than 'how much equipment can the City afford?', and (3) improve replacement policies and reduce on-going maintenance costs by making optimum replacement affordable.

EXPENDITURES AND REVENUES SUMMARY

EXPENDITURES BY TYPE	Actual FY 20-21	Budget FY 21-22	Adopted FY 22-23	Percent Change
Principal Retirement	\$11,400,000	\$6,405,000	\$7,229,500	12.9%
Interest Payments	731,303	520,720	511,400	-1.8%
Fiscal Charges	7,538	0	0	N/A
Transfer to General Fund	37,730	93,900	97,170	3.5%
Total Expenditures by Type	\$12,176,571	\$7,019,620	\$7,838,070	11.7%
RESOURCES BY TYPE				
Lease Payments – City	\$3,118,342	\$8,263,770	\$9,040,640	9.4%
Lease Payments – Outside Agencies	234,757	233,030	231,050	-0.8%
Investment Income	338,144	0	0	N/A
Fund Balance Appropriation	8,485,327	0	0	N/A
Total Resources by Type	\$12,176,571	\$8,496,800	\$9,271,690	9.1%
Addition to Fund Balance	\$0	\$1,477,180	\$1,433,620	-3.0%

BUDGET HIGHLIGHTS

- The FY 2022-23 adopted budget includes payments of \$7.2 million to retire outstanding Equipment Leases and a \$97,170 transfer to the general fund to cover the salary and benefits for a Financial Analyst position which oversees the Leasing program. The adopted budget includes a \$1,433,620 addition to fund balance.

LEASING EQUIPMENT ACQUISITION FUND

PROGRAM DESCRIPTIONS

Accounts for the total cost of capital equipment, including computer hardware, for governmental funds that is financed through the City's internal leasing program. City departments make annual lease payments of one-fifth of the purchase price to pay off the debt plus one percent interest. With the exception of computers, the City lease-purchases equipment that costs \$10,000 or more.

EXPENDITURES AND REVENUES SUMMARY

EXPENDITURES BY TYPE	Actual	Budget	Adopted	Percent
Capital Outlay	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>Change</u>
Rolling Stock	\$4,180,615	\$10,212,720	\$21,155,650	107.2%
Computer Equipment	0	0	2,145,060	N/A
General Equipment	628,470	2,480,470	1,088,260	-56.1%
Other	742,647	411,000	0	-100.0%
Total Expenditures by Type	\$5,551,731	\$13,104,190	\$24,388,970	86.1%
RESOURCES BY TYPE				
North Carolina Municipal Leasing Corporation	\$5,551,731	\$13,104,190	\$24,388,970	86.1%
Total Resources by Type	\$5,551,731	\$13,104,190	\$24,388,970	86.1%

BUDGET HIGHLIGHTS

- The substantial increase in the budget for this fund represents the increase in acquisition costs for the replacement of general government vehicles and equipment. Lease payments for equipment are budgeted in individual departmental budgets. The complete list of capital outlay to be financed through the City's internal program in FY 2022-23 can be found in the Supplemental Information section of this document.



Winston-Salem