
DEBT MANAGEMENT

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DEBT SERVICE FUND

PROGRAM DESCRIPTIONS

Debt service expenditures include the City's general governmental debt obligations, certificates of participation (COPS), 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 (7.30 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, 2016 net bonded debt per capita was \$576.

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 2015-16 annual financial report shows Winston-Salem at 11.7%.

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 2015-16 annual financial report notes the City's net outstanding general obligation debt is \$114.9 million, which is 0.6% of the City's total assessed valuation of taxable property. This leaves a legal debt margin of approximately \$1.51 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 15-16	Budget FY 16-17	Adopted FY 17-18	Percent Change
Principal Retirement	\$10,581,519	\$15,065,980	\$14,690,790	-2.5%
Interest Payments	7,899,226	9,742,200	11,783,940	21.0%
Fiscal Charges	225,251	246,970	246,970	0%
Administrative Expenses	37,590	53,640	55,780	4.0%
Property Tax Collection Fee	96,569	99,350	99,350	0%
Total Expenditures by Type	\$18,840,155	\$25,208,140	\$26,876,830	6.6%

DEBT SERVICE FUND

RESOURCES BY TYPE	Actual FY 15-16	Budget FY 16-17	Adopted FY 17-18	Percent Change
Property Taxes	\$14,819,862	\$14,797,820	\$15,192,030	2.7%
Sales Taxes	5,685,242	5,899,300	6,457,200	9.5%
ABC Allocation	645,259	655,120	746,530	14.0%
Interest Income	513,371	200,000	200,000	0%
Interest Subsidy on Recovery Zone Bonds	265,048	257,300	245,340	-4.6%
Forsyth County	235,897	235,890	234,430	-0.6%
Other Revenues	673,735	600,000	600,000	0%
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	180,260	184,660	184,800	0.1%
Debt Service on Bryce A. Stuart Municipal Building	1,251,400	1,218,470	1,201,370	-1.4%
Fund Balance Appropriation	0	559,580	1,215,130	117.2%
Total Resources by Type	\$24,870,075	\$25,208,140	\$26,876,830	6.6%
Addition to Fund Balance	\$6,029,920	\$0	\$0	N/A

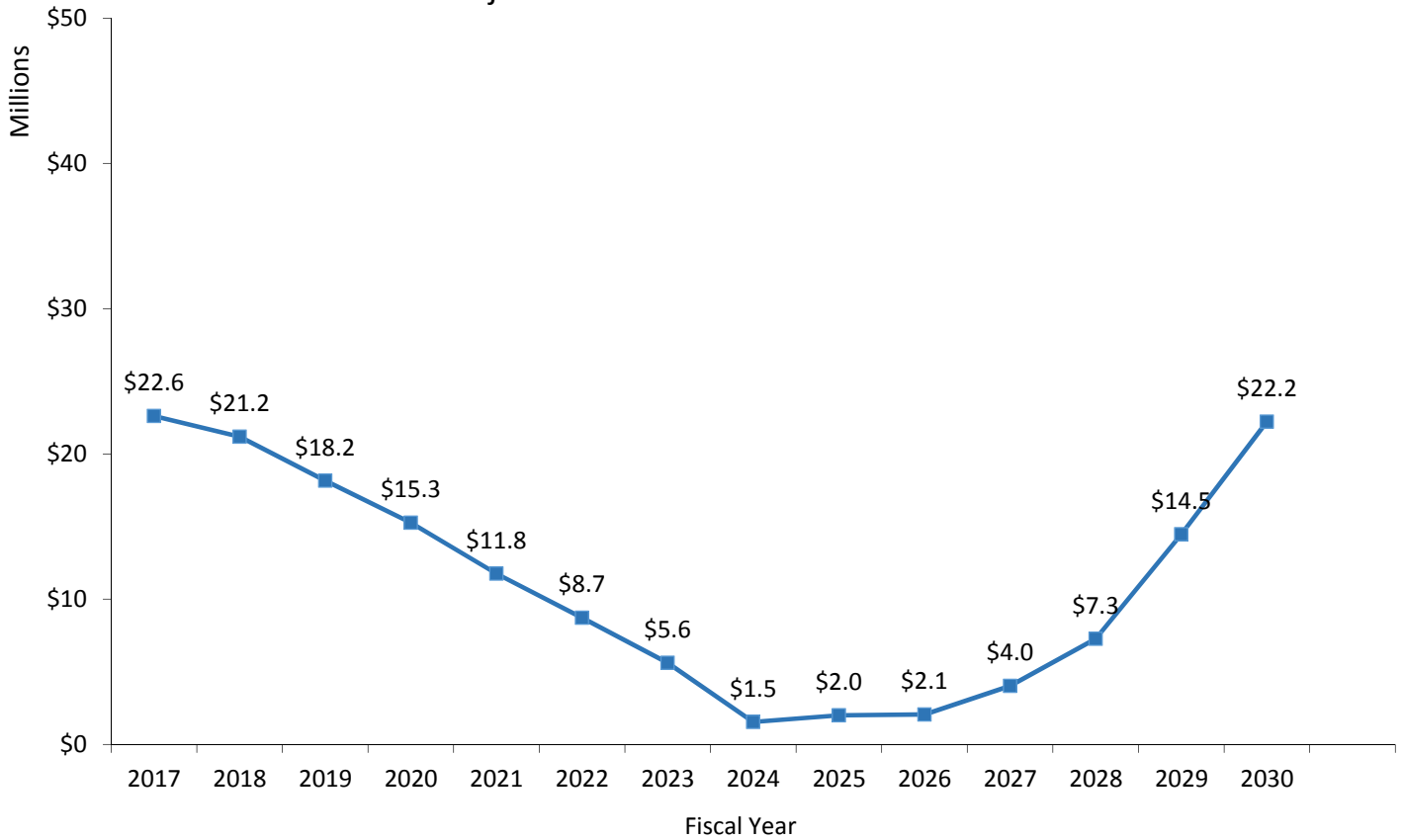
BUDGET HIGHLIGHTS

- Debt service fund expenditures increased \$1.7 million, or 6.6%, mainly attributable to interest payments for general obligation bond debt related to the 2014 bond referendum.
- Projected sales tax revenues in the debt service fund increased \$557,900, or 9.5%, due to current and anticipated growth in retail sales. The debt service fund's share of the Alcoholic Beverage Control (ABC) allocation is increased \$91,410, or 14.0%, mainly attributable to higher than budgeted current year collections.
- The following graph provides a multi-year outlook for the debt service fund that includes recently approved debt issuances and projected future debt issuances. The projection below assumes that additional general obligation bonds related to the 2014 referendum would be issued in FY 2017-18 and FY 2019-20.

DEBT SERVICE FUND

BUDGET HIGHLIGHTS - Continued

Projected Debt Service Fund Balance



- Listed below are the outstanding general obligation bonds and outstanding principal and interest requirements, as of June 30, 2017.

PROJECTED OUTSTANDING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2017

<u>Purpose of Bond Issue</u>	<u>Year of Issue</u>	<u>Original Issue Amount</u>	<u>Principal Balance</u>
Recreation, safety and streets	2008	5,105,000	3,505,000
Refunding	2009	8,435,000	2,020,000
Recreation, safety and streets	2010	4,785,000	3,590,000
Refunding	2010	24,750,000	15,430,000
Development, streets, and housing	2010	10,500,000	7,875,000
Recreation, safety and streets	2012	2,955,000	2,205,000
Refunding	2012	14,255,000	11,085,000
Recreation, safety and streets	2014	3,945,000	3,345,555
Equipment, recreation and streets	2016	3,810,000	3,680,000
Development, recreation, safety, and streets	2016	47,820,000	47,820,000
Housing	2016	6,845,000	5,095,000
Refunding	2016	12,655,000	12,655,000
Total		\$145,860,000	\$118,305,555

DEBT SERVICE FUND

BUDGET HIGHLIGHTS - Continued

PROJECTED GENERAL OBLIGATION BONDS DEBT SERVICE REQUIREMENTS TO MATURITY AS OF JUNE 30, 2017

<u>Year</u>	<u>General Purpose</u>
2018	12,182,478
2019	12,314,571
2020	12,718,357
2021	12,383,791
2022	11,780,792
2022-2026	49,410,093
2027-2031	29,349,578
2032-2036	16,621,738
Total	\$156,761,398

LEASING FUND

PROGRAM DESCRIPTION

Accumulates annual payments from City departments to make lease payments to the North Carolina Municipal Leasing Corporation (NCMLC).

Assists the City in acquiring real and personal property through the issuance of limited obligation bonds (LOBs) to fund the purchases. The corporation leases the property to the City, which provides lease payments that cover the interest and principal on the LOBs as follows: governmental funds make equal annual payments over a five-year period and proprietary funds make the same scheduled payments with the addition of an annual interest payment at a rate of 5.5%.

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 issuance of LOBs, (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 15-16	Budget FY 16-17	Adopted FY 17-18	Percent Change
Principal Retirement	\$4,922,928	\$15,290,000	\$9,620,000	-37.1%
Interest Payments	1,003,452	1,443,560	675,360	-53.2%
Other Expenses	90	0	0	N/A
Fiscal Charges	116,259	0	0	N/A
Total Expenditures by Type	\$6,042,729	\$16,733,560	\$10,295,360	-38.5%
RESOURCES BY TYPE	Actual FY 15-16	Budget FY 16-17	Adopted FY 17-18	Percent Change
Lease Payments – City	\$9,694,045	\$9,928,050	\$11,532,770	16.2%
Lease Payments – Outside Agencies	452,607	413,420	412,890	-0.1%
Investment Income	185,280	0	0	N/A
Proceeds from Capital Leases	-1,126,014	0	0	N/A
Transfer from General Fund	172,535	52,540	52,540	0%
Fund Balance Appropriation	0	6,339,550	0	-100.0%
Total Resources by Type	\$9,378,453	\$16,733,560	\$11,998,200	-28.3%
Addition to Fund Balance	\$3,335,724	\$0	\$1,702,840	N/A

BUDGET HIGHLIGHTS

- The FY 2016-17 budget included a balloon payment of \$15.3 million to retire previously authorized LOBs. Annual City payments to the leasing fund are accumulated in fund balance for future appropriation to cover balloon payments. The adopted budget includes a \$1,702,840 addition to fund balance for future payments.

LEASING FUND

BUDGET HIGHLIGHTS - Continued

- The adopted budget includes a transfer from general fund to cover the lease payment on the former AC Delco building, which has been renovated into the Downtown Arts Center (\$52,540). Transfers from the general fund for the Downtown Arts Center will be completed in FY 2018-19.

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 North Carolina Municipal Leasing Corporation. City departments make annual lease payments of one-fifth of the purchase price to pay off the debt. 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 15-16</u>	<u>FY 16-17</u>	<u>FY 17-18</u>	<u>Change</u>
Rolling Stock	\$4,449,079	\$9,396,770	\$3,999,840	-57.4%
Computer Equipment	23,981	241,000	75,000	-68.9%
General Equipment	303,928	704,680	265,000	-62.4%
Communications Equipment	0	497,000	0	-100.0%
Other	1,892,539	1,582,890	408,050	-74.2%
Total Expenditures by Type	\$6,669,526	\$12,422,340	\$4,747,890	-61.8%
RESOURCES BY TYPE	Actual	Budget	Adopted	Percent
North Carolina Municipal Leasing Corporation	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>FY 17-18</u>	<u>Change</u>
North Carolina Municipal Leasing Corporation	\$6,669,526	\$12,422,340	\$4,747,890	-61.8%
Total Resources by Type	\$6,669,526	\$12,422,340	\$4,747,890	-61.8%

BUDGET HIGHLIGHTS

- The adopted budget for the leasing equipment acquisition fund is decreased \$7,674,450, or 61.8%. Vehicle and equipment replacements include fire trucks, police cars, sanitation trucks, snow removal equipment, computers, and other equipment and rolling stock.
- The complete list of capital outlay to be financed through the North Carolina Municipal Leasing Corporation can be found in the Supplemental Information section of this document.