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## 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 (7.59 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, 2015 net bonded debt per capita was \$334.

**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 2014-15 annual financial report shows Winston-Salem at 20.0%, which included a balloon payment on limited obligation bonds issued for capital equipment.

**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 2014-15 annual financial report notes the City’s net outstanding general obligation debt is \$62.7 million, which is 0.4% of the City’s total assessed valuation of taxable property. This leaves a legal debt margin of approximately \$1.54 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 IBCA, Moody’s Investors Service, and Standard and Poor’s Corporation.

## EXPENDITURES AND REVENUES SUMMARY

EXPENDITURES BY TYPE	<u>Actual</u> FY 14-15	<u>Budget</u> FY 15-16	<u>Adopted</u> FY 16-17	<u>Percent</u> <u>Change</u>
Principal Retirement	\$9,724,639	\$10,547,940	\$15,065,980	42.8%
Interest Payments	7,501,307	7,840,480	9,742,200	24.3%
Fiscal Charges	35,767	246,970	246,970	0%
Administrative Expenses	21,672	53,580	53,640	0.1%
Property Tax Collection Fee	63,509	105,580	99,350	-5.9%
Transfer to Mass Transit Fund	2,898	0	0	N/A
<b>Total Expenditures by Type</b>	<b>\$17,349,792</b>	<b>\$18,794,550</b>	<b>\$25,208,140</b>	<b>34.1%</b>

## DEBT SERVICE FUND

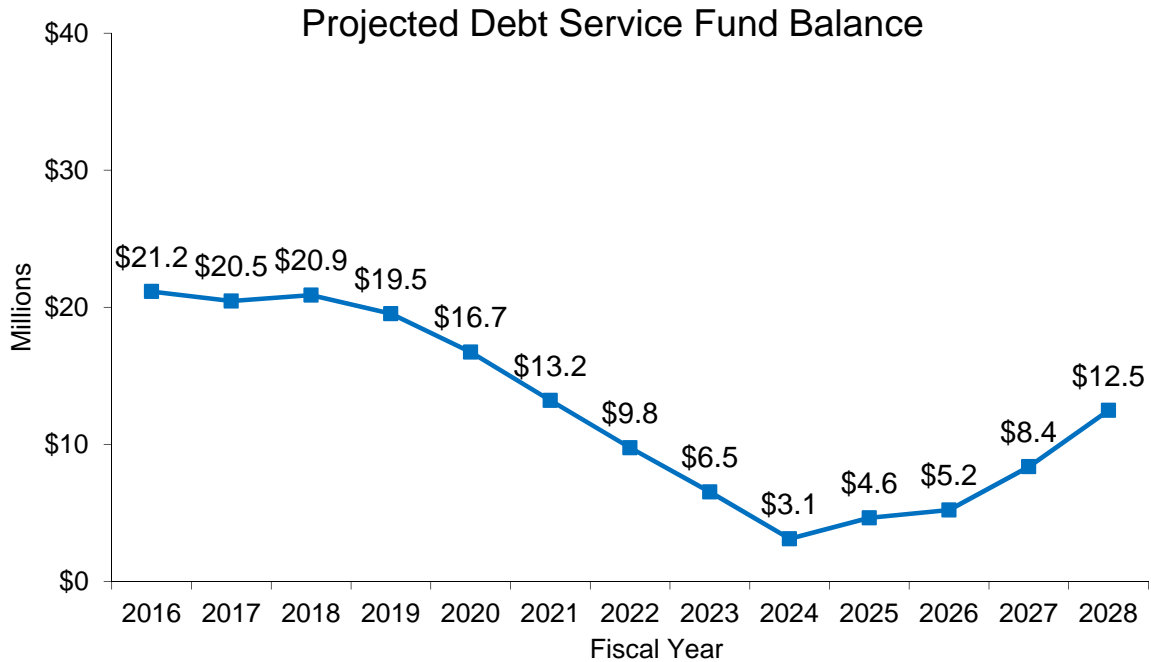
<b>RESOURCES BY TYPE</b>	<b>Actual FY 14-15</b>	<b>Budget FY 15-16</b>	<b>Adopted FY 16-17</b>	<b>Percent Change</b>
Property Taxes	\$9,691,919	\$14,528,840	\$14,797,820	1.9%
Sales Taxes	5,297,473	5,578,330	5,899,300	5.8%
ABC Allocation	535,553	483,430	655,120	35.5%
Interest Income	323,277	300,000	200,000	-33.3%
Interest Subsidy on Recovery Zone Bonds	266,665	263,620	257,300	-2.4%
Forsyth County	239,271	239,270	235,890	-1.4%
Other Revenues	2,233,715	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	167,810	180,260	184,660	2.4%
Debt Service on Bryce A. Stuart Municipal Building	920,230	1,251,400	1,218,470	-2.6%
Fund Balance Appropriation	0	0	559,580	N/A
<b>Total Resources by Type</b>	<b>\$20,275,912</b>	<b>\$24,025,150</b>	<b>\$25,208,140</b>	<b>4.9%</b>
Addition to Fund Balance	\$2,926,120	\$5,230,600	\$0	-100.0%

### BUDGET HIGHLIGHTS

- Debt service fund expenditures are increased \$6.4 million, or 34.1%, mainly attributable to principal and interest payments for general obligation bond debt related to the 2014 bond referendum.
- Projected sales tax revenues in the debt service fund are increased \$320,970, or 5.8%, due to current and anticipated growth in retail sales. The debt service fund's share of the Alcoholic Beverage Control (ABC) allocation is increased \$171,690, or 35.5%, mainly attributable to higher than budgeted current year collections. Budgeted interest income has been decreased due to lower market returns.
- 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



- Listed below are the outstanding general obligation bonds and outstanding principal and interest requirements, as of June 30, 2016.

#### PROJECTED OUTSTANDING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2016

<u>Purpose of Bond Issue</u>	<u>Year of Issue</u>	<u>Original Issue Amount</u>	<u>Principal Balance</u>
Development, recreation, safety, and streets	2006	\$6,435,000	\$885,000
Recreation, safety and streets	2008	5,105,000	3,705,000
Refunding	2009	8,435,000	2,970,000
Recreation, safety and streets	2010	4,785,000	3,830,000
Refunding	2010	24,750,000	17,295,000
Development, streets, and housing	2010	10,500,000	8,400,000
Recreation, safety and streets	2012	2,955,000	2,355,000
Refunding	2012	14,255,000	12,130,000
Recreation, safety and streets	2014	3,945,000	3,545,555
Equipment, recreation and streets	2016	3,810,000	3,810,000
Development, recreation, safety, and streets	2016	47,820,000	47,820,000
Housing	2016	6,845,000	6,845,000
Refunding	2016	12,655,000	12,655,000
<b>Total</b>		<b>\$152,295,000</b>	<b>\$126,245,000</b>

## DEBT SERVICE FUND

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### BUDGET HIGHLIGHTS - Continued

#### PROJECTED GENERAL OBLIGATION BONDS DEBT SERVICE REQUIREMENTS TO MATURITY AS OF JUNE 30, 2016

<u>Year</u>	<u>General Purpose</u>
2017	\$ 12,791,790
2018	12,182,478
2019	12,314,571
2020	12,718,357
2021	12,383,791
2022-2026	53,641,566
2027-2031	31,789,097
2032-2036	21,731,538
<b>Total</b>	<b>\$169,553,186</b>

# 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

<b>EXPENDITURES BY TYPE</b>	<b>Actual FY 14-15</b>	<b>Budget FY 15-16</b>	<b>Adopted FY 16-17</b>	<b>Percent Change</b>
Principal Retirement	\$16,855,536	\$4,922,930	\$15,290,000	210.6%
Interest Payments	2,305,625	1,260,820	1,443,560	14.5%
Fiscal Charges	193,586	0	0	N/A
<b>Total Expenditures by Type</b>	<b>\$19,354,748</b>	<b>\$6,183,750</b>	<b>\$16,733,560</b>	<b>170.6%</b>
<b>RESOURCES BY TYPE</b>	<b>Actual FY 14-15</b>	<b>Budget FY 15-16</b>	<b>Adopted FY 16-17</b>	<b>Percent Change</b>
Lease Payments – City	\$9,971,192	\$9,620,120	\$9,928,050	3.2%
Lease Payments – Outside Agencies	507,385	449,290	413,420	-8.0%
Investment Income	115,953	0	0	N/A
Proceeds from Capital Leases	2,464,530	0	0	N/A
Transfer from General Fund	172,535	172,540	52,540	-69.5%
Bond Refunding Proceeds	63,235	0	0	N/A
Fund Balance Appropriation	6,059,919	0	6,339,550	N/A
<b>Total Resources by Type</b>	<b>\$19,354,748</b>	<b>\$10,241,950</b>	<b>\$16,733,560</b>	<b>63.4%</b>
Addition to Fund Balance	\$0	\$4,058,200	\$0	-100.0%

## BUDGET HIGHLIGHTS

- A balloon payment of \$15.3 million to retire previously authorized LOBs is scheduled for FY 2016-17. Annual City payments to the leasing fund are accumulated in fund balance for future appropriation to cover balloon payments. The adopted budget appropriates \$6,339,550 in fund balance to cover the FY 2016-17 balloon payment.

## LEASING FUND

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### 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). Budgeted transfers from the general fund are decreased \$120,000 as a result of completion of payments related to acquisition of the Lowery Street Facility. 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

<b>EXPENDITURES BY TYPE</b>	<b>Actual</b>	<b>Budget</b>	<b>Adopted</b>	<b>Percent</b>
<b>Capital Outlay</b>	<b><u>FY 14-15</u></b>	<b><u>FY 15-16</u></b>	<b><u>FY 16-17</u></b>	<b><u>Change</u></b>
Rolling Stock	\$5,054,601	\$6,568,500	\$9,396,770	43.1%
Computer Equipment	194,935	170,000	241,000	41.8%
General Equipment	786,293	196,220	704,680	259.1%
Communications Equipment	0	0	497,000	N/A
Other	1,373,803	1,892,810	1,582,890	-16.4%
<b>Total Expenditures by Type</b>	<b>\$7,409,632</b>	<b>\$8,827,530</b>	<b>\$12,422,340</b>	<b>40.7%</b>
<b>RESOURCES BY TYPE</b>	<b>Actual</b>	<b>Budget</b>	<b>Adopted</b>	<b>Percent</b>
<b>North Carolina Municipal Leasing Corporation</b>	<b><u>FY 14-15</u></b>	<b><u>FY 15-16</u></b>	<b><u>FY 16-17</u></b>	<b><u>Change</u></b>
North Carolina Municipal Leasing Corporation	\$7,409,632	\$8,827,530	\$12,422,340	40.7%
<b>Total Resources by Type</b>	<b>\$7,409,632</b>	<b>\$8,827,530</b>	<b>\$12,422,340</b>	<b>40.7%</b>

## BUDGET HIGHLIGHTS

- The adopted budget for the leasing equipment acquisition fund is increased \$3,594,810, or 40.7%. The increased expenditures for vehicles and equipment reflects the need to replace additional, aging rolling stock and equipment. Vehicle and equipment replacements include fire trucks, police cars, sanitation trucks, tractors, dump trucks, construction equipment, computers, informational technology infrastructure, and other equipment and rolling stock.
- The complete list of adopted capital outlay to be financed through the North Carolina Municipal Leasing Corporation can be found in the Supplemental Information section of this document.