

# DEBT MANAGEMENT

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**Winston-Salem**

# DEBT SERVICE FUND

## PROGRAM DESCRIPTION

- Debt service expenditures include the city's general governmental debt obligations; certificates of participation (COPS), debt obligations for public facilities improvements and information systems enhancements; leasing debt payments for the city's grant match for Winston-Salem Transit Authority bus replacements, for selected equipment and renovations at the Lawrence Joel Veterans Memorial Coliseum and Annex, for the radio system replacement project, for City Hall renovations, and for selected Recreation equipment and facility repairs; and the administrative expenses associated with bond ratings and issuances.
- Debt service resources include property tax revenues (5-cents on the property tax rate), investment income on unrestricted governmental monies, 80% of the 1983 (Article 40) one-half cent sales tax distribution, and one-third of the city's municipal ABC revenue allocation.

## 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, 2006 net bonded debt per capita was \$517.

### 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. If the ratio exceeds 20%, it is considered a potential problem. Ten percent is considered good. The annual financial report for FY 05-06 shows Winston-Salem at 17.8%. The debt service expenditures for FY 05-06 include a balloon principal payment of \$18 million for Certificates of Participation.

### 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 05-06 annual financial report indicates the city's net outstanding general obligation debt is \$98.6 million, which is .6% of the city's total assessed valuation of taxable property. This leaves a legal debt margin of approximately \$1.25 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.

	<b>Actual</b>	<b>Amended</b>	<b>Requested</b>	<b>Adopted</b>	<b>Percent</b>
<b>EXPENDITURES BY TYPE</b>	<b><u>FY 05-06</u></b>	<b><u>FY 06-07</u></b>	<b><u>FY 07-08</u></b>	<b><u>FY 07-08</u></b>	<b><u>Change</u></b>
Principal Retirement	\$9,923,187	\$7,820,300	\$7,422,730	\$7,422,730	-5.1%
Capital Lease Charges	1,326,191	1,434,390	1,445,200	1,445,200	0.8%
Interest	6,057,826	7,455,580	7,009,010	7,009,010	-6.0%
Fiscal Charges	138,100	40,000	40,000	40,000	0%
Administrative Expenses	13,529	41,010	94,860	94,860	131.3%
Property Tax Collection Fee	58,287	89,320	67,260	67,260	-24.7%
Transfer to Capital Projects Fund	1,272,020	0	0	0	0%
Transfer to Mass Transit Tax Fund	104,771	123,500	119,130	119,130	-3.5%
<b>Total Expenditures by Type</b>	<b>\$18,893,911</b>	<b>\$17,004,100</b>	<b>\$16,198,190</b>	<b>\$16,198,190</b>	<b>-4.7%</b>

# DEBT SERVICE FUND

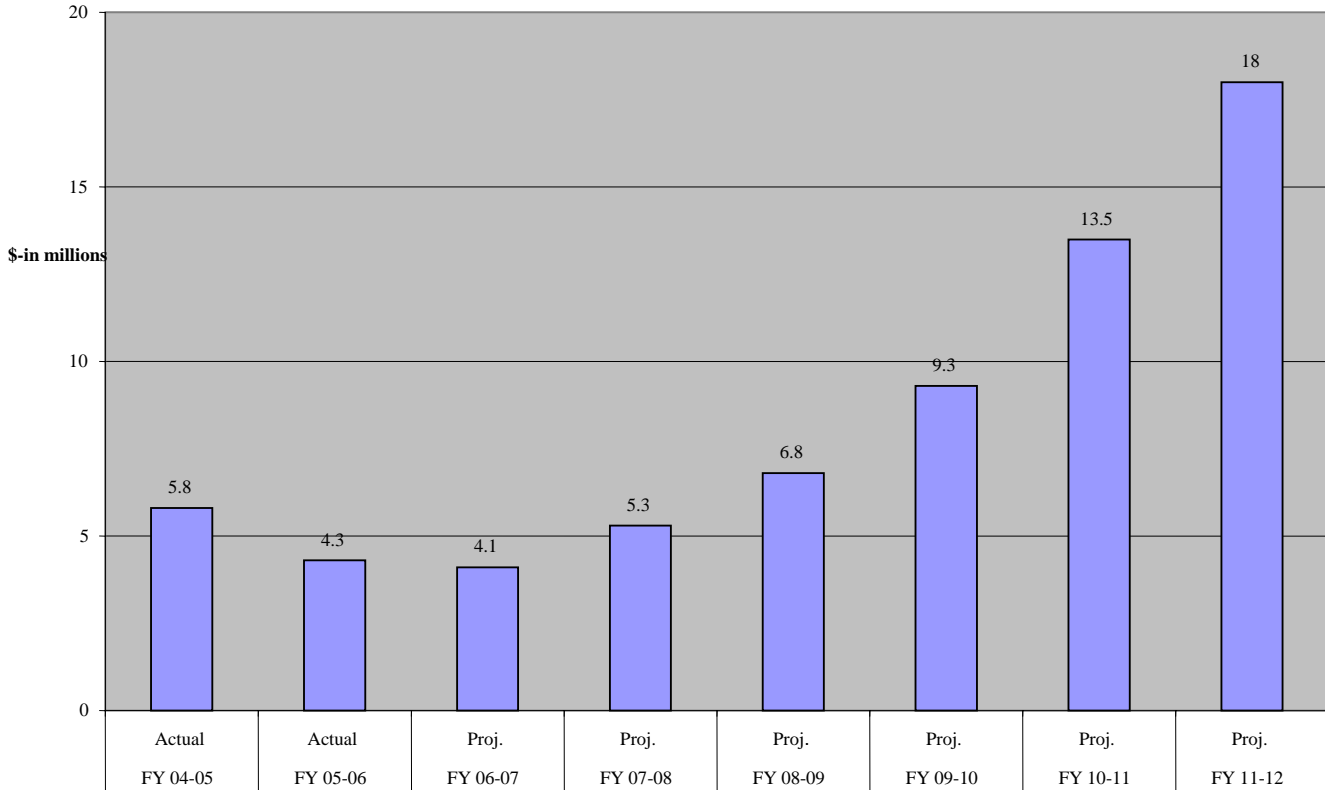
<b>RESOURCES BY TYPE</b>	<b>Actual FY 05-06</b>	<b>Amended FY 06-07</b>	<b>Requested FY 07-08</b>	<b>Adopted FY 07-08</b>	<b>Percent Change</b>
Property Taxes	\$8,368,584	\$8,317,110	\$9,254,310	\$9,254,310	11.3%
ABC Allocation	336,493	335,000	338,750	338,750	1.1%
Interest Income	1,983,153	1,742,480	2,000,000	2,000,000	14.8%
Transfer from General Fund					
-for Debt Service on Dell Project	400,000	400,000	400,000	400,000	0%
-for Lease Payment on 800 MHz Radios	223,860	223,860	223,860	223,860	0%
Transfer from Special Sales Tax Fund	3,862,925	3,996,540	4,572,150	4,572,150	14.4%
Transfer from Capital Projects Fund	1,272,020	0	0	0	0%
Other	871,172	600,000	600,000	600,000	0%
Fund Balance Appropriation	1,575,704	1,389,110	0	0	-100.0%
Addition to Fund Balance	0	0	-1,190,880	-1,190,880	NA
<b>Total Resources by Type</b>	<b>\$18,893,911</b>	<b>\$17,004,100</b>	<b>\$16,198,190</b>	<b>\$16,198,190</b>	<b>-4.7%</b>

## BUDGET HIGHLIGHTS

- Overall, the debt service fund expenditures are decreased by 4.7% for FY 07-08. The majority of the decrease is in the principal and interest payments on bonded debt.
- Administrative expenses are increased by \$53,850 to cover the Information Systems charges related to the development and installation of a new debt management system.
- Property tax revenue growth of 11.3% is attributable to the first year's levy of property taxes in the areas of the city that were annexed on September 30, 2006. Without the annexation growth, the city's property tax base growth would have been closer to 3% to 3.5%.
- Sales tax revenue growth of 14.4% reflects better than expected receipts from the Article 40, half-cent sales tax that is allocated 80% to the debt service fund and 20% to the general fund in FY 06-07. Added to the 06-07 base is 3.5% annual growth projected by the N.C. League of Municipalities and additional growth in the fourth quarter from the annexation areas (an accrual received in mid-September, 2008), for which we will get the benefit starting in July, 2008.
- Due to the reduction in expenditures and increase in revenues, there is a net increase in the debt service fund balance of \$1,190,880 expected by June 30, 2008. A multi-year fund balance projection is provided on the next page. The fund balance projection includes the following new debt issues: 2008 two-thirds general obligation bonds of \$5.1 million, 2008 previously authorized (2000) general obligation bonds of \$10.5 million, and 2010 two-thirds general obligation bonds of \$4.4 million.

# DEBT SERVICE FUND

Projected Debt Service Fund Balance



➤ Listed below the outstanding general obligation bonds and outstanding principal and interest requirements, as of June 30, 2006:

## OUTSTANDING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2006

<u>Purpose of Bond Issue</u>	<u>Year of Issue</u>	<u>Original Issue Amount</u>	<u>Principal Balance</u>
Fire, recreation & streets	1987	\$ 2,750,000	\$ 1,800,000
Streets	1990	11,800,000	1,000,000
Recreation, sidewalks, streets, & refunding	1993	20,419,964	1,620,331
Improvements, recreation, streets, & refunding	1998	26,945,000	15,330,000
Development, recreation & streets	1999	6,890,000	5,790,000
Development, housing, recreation, & streets	2002	35,950,000	32,595,000
Development, safety, streets, & refunding	2004	25,675,000	24,880,000
Development, recreation, safety, & streets	2006	19,925,000	19,925,000
<b>Total</b>		<b>\$150,354,964</b>	<b>\$102,940,331</b>

# **DEBT SERVICE FUND**

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## **DEBT SERVICE GENERAL OBLIGATION BONDS PRINCIPAL AND INTEREST REQUIREMENTS AS OF JUNE 30, 2006**

<b><u>Year</u></b>	<b><u>General Purpose</u></b>
2007	\$12,599,332
2008	11,854,896
2009	10,924,661
2010	9,425,629
2011	7,832,604
2012-2016	38,858,948
2017-2021	33,756,751
2022-2026	24,532,225
2027-2028	3,119,344
<b>Total</b>	<b>\$152,904,390</b>

# LEASING FUND

## PROGRAM DESCRIPTIONS

- 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 certificates of participation (COPS) to fund the purchases. The corporation leases the property to the city, which provides lease payments that cover the interest and principal on the COPS as follows: governmental funds make equal annual payments over a three-year or five-year period, depending on the type of equipment being purchased, 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:
  - Reduce acquisition costs of real and personal property for the city by providing a low cost leasing program through the periodical issuance of COPS.
  - Increase productivity by making the purchase and budget decision concentrate on “what is needed to do the work?” rather than “how much equipment can the city afford?”
  - Improve replacement policies and reduce on-going maintenance costs by making optimum replacement affordable.

<b>EXPENDITURES BY TYPE</b>	<b>Actual FY 05-06</b>	<b>Amended FY 06-07</b>	<b>Requested FY 07-08</b>	<b>Adopted FY 07-08</b>	<b>Percent Change</b>
Principal Retirement	\$19,231,953	\$19,301,700	\$1,475,000	\$1,475,000	-92.3%
Interest Payments	3,035,700	2,060,400	4,484,000	4,484,000	217.6%
Fiscal Expense	157,128	0	0	0	0%
Transfer to Leasing Capital Projects	700,000	0	0	0	0%
Transfer to the General Fund	0	235,000	0	0	-100.0%
<b>Total Expenditures by Type</b>	<b>\$23,124,782</b>	<b>\$21,597,100</b>	<b>\$5,959,000</b>	<b>\$5,959,000</b>	<b>-72.4%</b>

## RESOURCES BY TYPE

Lease Payments - City	\$10,658,394	\$10,938,000	\$13,775,000	\$13,775,000	25.9%
Lease Payments - Outside Agencies	704,960	597,000	597,000	597,000	0%
Investment Income	760,427	400,000	506,000	506,000	26.5%
NCMLC Proceeds	1,630,296	0	0	0	0%
Fund Balance Appropriation	9,370,705	9,662,100	0	0	-100.0%
Addition to Fund Balance	0	0	-8,919,000	-8,919,000	NA
<b>Total Resources by Type</b>	<b>\$23,124,782</b>	<b>\$21,597,100</b>	<b>\$5,959,000</b>	<b>\$5,959,000</b>	<b>-72.4%</b>

## BUDGET HIGHLIGHTS

- The adopted budget for the Leasing Fund is reduced by 72.4% due to a balloon payment in FY 06-07 to retire previously authorized certificates of participation (COPs). In FY 07-08, there is no balloon payment scheduled; therefore, the lease payments from city departments and outside agencies will build up the fund balance by \$8.9 million to meet the future balloon payment requirement.

# LEASING EQUIPMENT ACQUISITION FUND

## PROGRAM DESCRIPTION

- Accounts for the total cost of capital equipment, including computer hardware, that is financed through the North Carolina Municipal Leasing Corporation. For computer hardware, city departments make annual lease payments of one-third of the purchase price to pay off the debt. For all other equipment (e.g., rolling stock, machinery, etc.), city departments make annual lease payments of one-fifth of the purchase price. With the exception of computers, the city lease-purchases equipment that costs \$10,000 or more.

<b>EXPENDITURES BY TYPE</b>	<b>Actual FY 05-06</b>	<b>Amended FY 06-07</b>	<b>Requested FY 07-08</b>	<b>Adopted FY 07-08</b>	<b>Percent Change</b>
Capital Outlay					
Rolling Stock	\$3,820,348	\$7,730,490	\$5,967,100	\$5,967,100	-22.8%
Computer Equipment	49,595	265,000	72,000	72,000	-72.9%
Communications Equipment	0	225,500	0	0	-100.0%
General Equipment	313,240	907,320	768,650	768,650	-18.0%
Other	11,100	1,979,270	1,184,930	1,184,930	-40.1%
<b>Total Expenditures by Type</b>	<b>\$4,194,283</b>	<b>\$11,107,580</b>	<b>\$7,992,680</b>	<b>\$7,992,680</b>	<b>-28.0%</b>
<b>RESOURCES BY TYPE</b>					
North Carolina Municipal Leasing Corp.	\$4,194,283	\$11,107,580	\$7,992,680	\$7,992,680	-28.0%
<b>Total Resources by Type</b>	<b>\$4,194,283</b>	<b>\$11,107,580</b>	<b>\$7,992,680</b>	<b>\$7,992,680</b>	<b>-28.0%</b>

## BUDGET HIGHLIGHTS

- The adopted budget for FY 07-08 reflects a net decrease of \$3,114,900 primarily due to a one-time spike in capital acquisitions in FY 06-07 related to the annexation of over 20 square miles of land area and 20,727 new residents, as of September 30, 2006.
- The FY 07-08 list of equipment to be financed through the North Carolina Municipal Leasing Corporation can be found in the Supplemental Information section of this document.