

# DEBT MANAGEMENT

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Debt Service Fund.....	231
Leasing Fund.....	234
Leasing Equipment Acquisition Fund.....	235



**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 0.6% 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>Adopted</b>	<b>Percent</b>
<b>EXPENDITURES BY TYPE</b>	<b><u>FY 06-07</u></b>	<b><u>FY 07-08</u></b>	<b><u>FY 08-09</u></b>	<b><u>Change</u></b>
Principal Retirement	\$8,897,265	\$7,422,730	\$6,872,930	-7.4%
Capital Lease Charges	275,100	1,445,200	2,750,410	90.3%
Interest Payments	6,995,566	7,009,010	7,997,060	14.1%
Fiscal Charges	56,210	40,000	40,000	0%
Administrative Expense	11,127	94,860	74,880	0%
Property Tax Collection Fee	82,118	67,260	77,510	15.2%
Transfer to Mass Transit Tax Fund	100,363	119,130	111,600	-6.3%
<b>Total Expenditures by Type</b>	<b>\$16,417,750</b>	<b>\$16,198,190</b>	<b>\$17,924,390</b>	<b>10.7%</b>

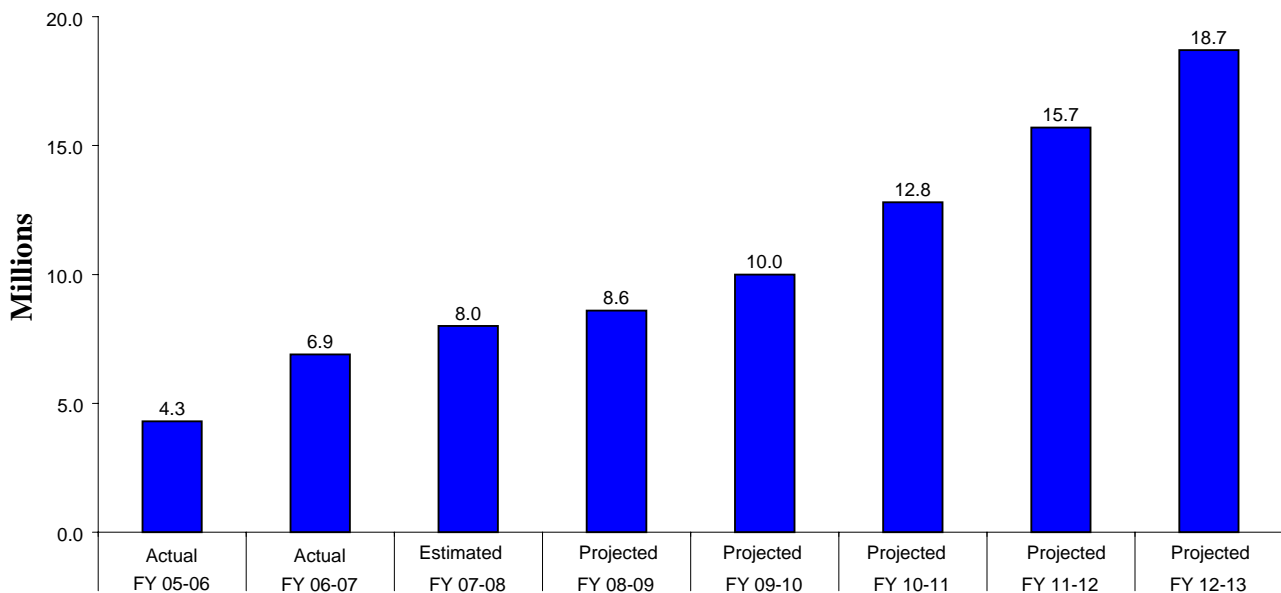
# DEBT SERVICE FUND

<b>RESOURCES BY TYPE</b>	<b>Actual FY 06-07</b>	<b>Amended FY 07-08</b>	<b>Adopted FY 08-09</b>	<b>Percent Change</b>
Property Taxes	\$8,600,174	\$9,254,310	\$9,554,090	3.2%
ABC Allocation	327,897	338,750	331,540	-2.1%
Interest Income	4,487,604	2,000,000	2,000,000	0%
Transfer from General Fund				
-for Debt Service on Dell Project	400,000	400,000	400,000	0%
-for Lease Payment on 800 MHz Radios	223,860	223,860	223,860	0%
Transfer from Special Sales Tax Fund	4,349,832	4,572,150	4,936,290	8.0%
Other	600,000	600,000	600,000	0%
<b>Total Resources by Type</b>	<b>\$18,989,367</b>	<b>\$17,389,070</b>	<b>\$18,045,780</b>	<b>3.8%</b>
Addition to Fund Balance	\$2,571,617	\$1,190,880	\$121,390	-89.8%

## BUDGET HIGHLIGHTS

- Overall, debt service fund expenditures are increased \$1,726,200, or 10.7%, for FY 08-09. This increase is primarily due to increased capital lease charges and interest payments for the 2008 issuance of \$26.4 million in certificates of participation for various capital projects.
- The FY 08-09 addition to fund balance is substantially less than the budget estimate for FY 07-08 due to the increase in the capital lease charges and interest payments noted above.
- The following chart provides a five-year outlook for the debt service fund. The outlook does not include debt payments associated with future bond referenda or property tax rate adjustments to retire new debt.

**Projected Debt Service Fund Balance**



# DEBT SERVICE FUND

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- Listed below the outstanding general obligation bonds and outstanding principal and interest requirements, as of June 30, 2007:

## OUTSTANDING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2007

<u>Purpose of Bond Issue</u>	<u>Year of Issue</u>	<u>Original Issue Amount</u>	<u>Principal Balance</u>
Fire, recreation, and streets	1987	\$ 2,750,000	\$ 900,000
Recreation, sidewalks, streets, and refunding	1993	20,419,964	1,315,038
Improvements, recreation, streets, and refunding	1998	26,945,000	12,040,000
Development, recreation, and streets	1999	6,890,000	5,570,000
Development, housing, recreation, and streets	2002	35,950,000	31,395,000
Development, safety, streets, and refunding	2004	25,675,000	24,135,000
Development, recreation, safety, and streets	2006	19,925,000	19,925,000
<b>Total</b>		<b>\$138,554,964</b>	<b>\$ 95,280,038</b>

## DEBT SERVICE GENERAL OBLIGATION BONDS PRINCIPAL AND INTEREST REQUIREMENTS AS OF JUNE 30, 2007

<u>Year</u>	<u>General Purpose</u>
2008	\$11,854,896
2009	10,924,661
2010	9,425,629
2011	7,832,604
2012	8,084,991
2013-2017	37,929,906
2018-2022	32,643,447
2023-2027	20,049,955
2028	1,558,969
<b>Total</b>	<b>\$140,305,058</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 06-07</b>	<b>Amended FY 07-08</b>	<b>Adopted FY 08-09</b>	<b>Percent Change</b>
Principal Retirement	\$19,301,684	\$1,475,000	\$3,658,480	148.0%
Interest Payments	4,312,159	4,484,000	6,832,160	52.4%
Fiscal Expense	168,301	0	0	N/A
Transfer to Leasing Capital Projects	-425,000	0	0	N/A
Transfer to the General Fund	235,000	0	0	N/A
<b>Total Expenditures by Type</b>	<b>\$23,592,143</b>	<b>\$5,959,000</b>	<b>\$10,490,640</b>	<b>76.0%</b>
<b>RESOURCES BY TYPE</b>				
Lease Payments - City	\$11,860,528	\$13,775,000	\$19,597,610	42.3%
Lease Payments - Outside Agencies	664,351	597,000	826,210	38.4%
Investment Income	2,083,484	506,000	1,366,900	170.1%
NCMLC Proceeds	5,467,231	0	0	N/A
Fund Balance Appropriation	3,516,549	0	0	N/A
<b>Total Resources by Type</b>	<b>\$23,592,143</b>	<b>\$14,878,000</b>	<b>\$21,790,720</b>	<b>46.5%</b>
Addition to Fund Balance	\$0	\$8,919,000	\$11,300,080	26.7%

## BUDGET HIGHLIGHTS

- The adopted budget for the Leasing Fund is increased \$4,531,640, or 76%, due to the addition of principal and interest payments for the 2006 and 2008 COPS that were issued to finance various capital improvements.
- Revenues from lease payments are increased \$6,051,820, contributing to fund balance growth of 26.7%.

# 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 06-07</b>	<b>Amended FY 07-08</b>	<b>Adopted FY 08-09</b>	<b>Percent Change</b>
Capital Outlay				
Rolling Stock	\$4,762,056	\$5,967,100	\$6,394,950	7.2%
Computer Equipment	84,390	72,000	49,100	-31.8%
Communications Equipment	677,649	0	0	N/A
General Equipment	734,948	768,650	488,160	-36.5%
Other	1,693,820	1,184,930	179,750	-84.8%
<b>Total Expenditures by Type</b>	<b>\$7,952,863</b>	<b>\$7,992,680</b>	<b>\$7,111,960</b>	<b>-11.0%</b>
<b>RESOURCES BY TYPE</b>				
North Carolina Municipal Leasing Corp.	\$7,952,863	\$7,992,680	\$7,111,960	-11.0%
<b>Total Resources by Type</b>	<b>\$7,952,863</b>	<b>\$7,992,680</b>	<b>\$7,111,960</b>	<b>-11.0%</b>

## BUDGET HIGHLIGHTS

- The adopted budget for FY 08-09 reflects a net decrease of \$880,720, or 11%, primarily due to the purchase of an additional 5,000 carts for the voluntary curbside refuse collection program, upgrade of 140 self-contained breathing apparatus for the Fire Department, and replacement of all 62 golf carts at Winston Lake Golf Course in FY 07-08.
- The FY 08-09 list of equipment to be financed through the North Carolina Municipal Leasing Corporation can be found in the Supplemental Information section of this document.



**Winston-Salem**