

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 (4.74 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, 2008 net bonded debt per capita was \$414.

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 07-08 shows Winston-Salem at 13.8%.

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 07-08 annual financial report indicates the city's net outstanding general obligation debt is \$83.4 million, which is 0.4% of the city's total assessed valuation of taxable property. This leaves a legal debt margin of approximately \$1.49 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.

	Actual	Budget	Adopted	Percent
EXPENDITURES BY TYPE	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>Change</u>
Principal Retirement	\$7,422,721	\$6,872,930	\$6,955,310	1.2%
Capital Lease Charges	1,398,814	2,750,410	2,390,100	-13.1%
Interest	6,817,300	7,997,060	8,145,430	1.9%
Fiscal Charges	64,819	40,000	128,000	220.0%
Administrative Expense	86,589	74,880	67,610	-9.7%
Property Tax Collection Fee	70,574	77,510	62,320	-19.6%
Transfer to Capital Projects Fund	1,308,626	0	0	N/A
Transfer to Mass Transit Tax Fund	95,975	111,600	87,210	-21.9%
Total Expenditures	\$17,265,418	\$17,924,390	\$17,835,980	-0.4%

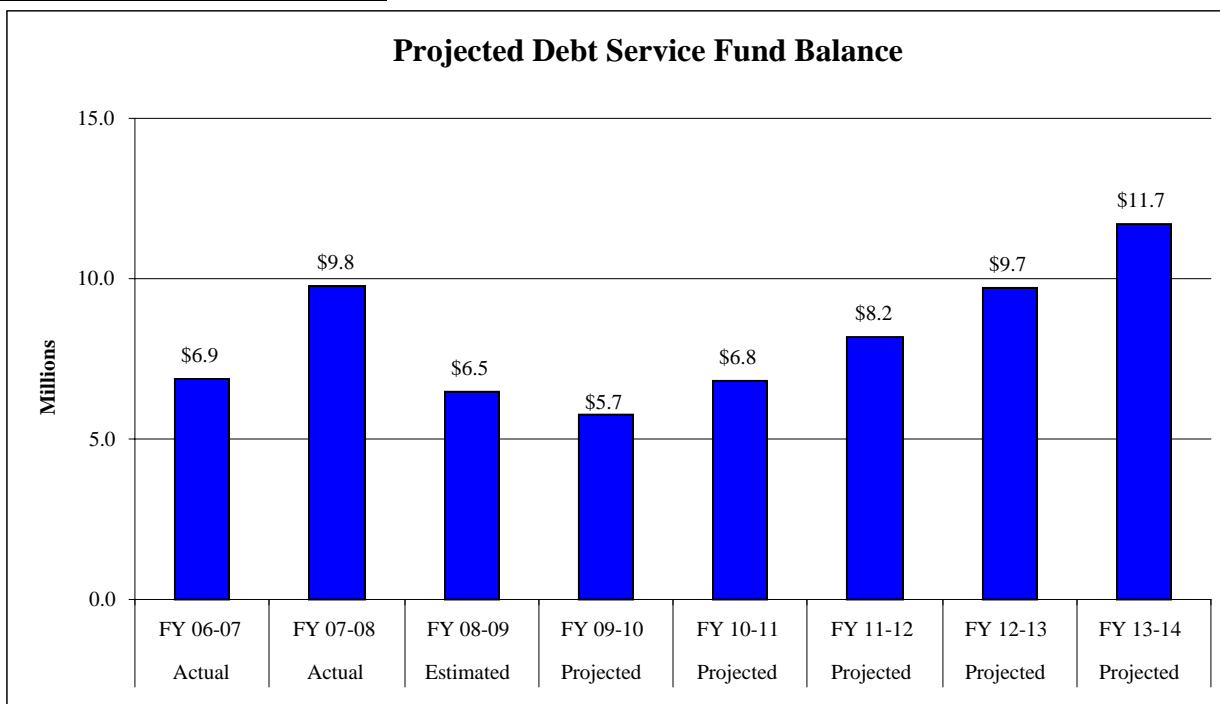
DEBT SERVICE FUND

RESOURCES BY TYPE	Actual FY 07-08	Budget FY 08-09	Adopted FY 09-10	Percent Change
Property Taxes	\$9,990,639	\$9,554,090	\$9,740,770	2.0%
ABC Allocation	328,973	331,540	333,020	0.5%
Interest Income	2,829,017	2,000,000	1,218,000	-39.1%
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	0	-100.0%
-for Debt Service on Brookstown Project	0	0	113,640	N/A
Transfer from Special Sales Tax Fund	4,485,040	4,936,290	4,409,700	-10.7%
Transfer from Capital Project Fund	1,308,626	0	0	N/A
Fund Balance Appropriation	0	0	778,980	N/A
Other	600,000	600,000	841,870	40.3%
Total Resources	\$20,166,155	\$18,045,780	\$17,835,980	-1.2%
Addition to Fund Balance	\$2,900,737	\$121,390	\$0	-100%

BUDGET HIGHLIGHTS

- Overall, debt service fund expenditures are decreased \$88,410, or 0.4%, for FY 09-10.
- Interest expense for the Series 1992 Certificates of Participation (issued to fund other post-employment benefits) will be paid from the debt service fund beginning in FY 09-10.

Long-Range Financial Outlook



DEBT SERVICE FUND

- Listed below are the outstanding general obligation bonds and outstanding principal and interest requirements, as of June 30, 2009:

PROJECTED OUTSTANDING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2009

<u>Purpose of Bond Issue</u>	<u>Year of Issue</u>	<u>Original Issue Amount</u>	<u>Principal Balance</u>
Recreation, sidewalks, streets, and refunding	1993	\$5,499,964	\$909,396
Improvements, recreation, streets, and refunding	1998	22,945,000	1,625,000
Development, recreation and streets	1999	1,980,000	220,000
Development, housing, recreation, and streets	2002	35,950,000	28,850,000
Development, safety, streets, and refunding	2004	25,675,000	21,905,000
Development, recreation, safety, and streets	2006	19,925,000	18,900,000
Recreation, safety & streets	2008	5,105,000	5,105,000
Refunding	2009	8,435,000	8,435,000
Total		\$125,514,964	\$85,949,396

PROJECTED DEBT SERVICE GENERAL OBLIGATION BONDS PRINCIPAL AND INTEREST REQUIREMENTS AS OF JUNE 30, 2009

<u>Year</u>	<u>General Purpose</u>
2010	\$9,952,187
2011	8,082,889
2012	8,330,426
2013	8,488,463
2014	8,337,198
2015-2019	35,971,193
2020-2024	33,212,299
2025-2028	11,489,165
Total	\$123,863,820

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.

EXPENDITURES BY TYPE	Actual FY 07-08	Budget FY 08-09	Adopted FY 09-10	Percent Change
Principal Retirement	\$1,474,892	\$3,658,480	\$20,069,360	448.6%
Interest Payments	3,821,905	6,832,160	3,887,580	-43.1%
Fiscal Expense	174,139	0	0	N/A
Administrative Expense	27,040	0	0	N/A
Transfer to Leasing Capital Projects Fund	8,800,000	0	0	N/A
Total Expenditures by Type	\$14,297,976	\$10,490,640	\$23,956,940	128.4%
 RESOURCES BY TYPE				
Lease Payments - City	\$13,783,791	\$19,597,610	\$15,149,160	-22.7%
Lease Payments - Outside Agencies	755,794	826,210	805,700	-2.5%
Investment Income	451,581	1,366,900	0	-100.0%
Proceeds from Capital Leases	-2,309,614	0	0	N/A
Fund Balance Appropriation	1,616,424	0	8,002,080	N/A
Total Resources by Type	\$14,297,976	\$21,790,720	\$23,956,940	9.9%
 Addition to Fund Balance	 \$0	 \$11,300,080	 \$0	 -100.0%

LEASING FUND

BUDGET HIGHLIGHTS

- A balloon payment to retire previously authorized certificates of participation (COP's) is scheduled for FY 09-10. Annual city payments to the leasing fund are accumulated in fund balance for future appropriation to cover the balloon payment. The budget appropriates \$8,002,080 in fund balance to cover the FY 09-10 payment.
- Revenue from lease payments paid by city departments is decreased \$4,448,450, or 22.7%, due to the decrease in equipment purchases for FY 09-10.
- The FY 09-10 budget does not include an estimate for investment income due to recent investment losses in this fund (-\$1,366,900).

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.

EXPENDITURES BY TYPE	Actual FY 07-08	Budget FY 08-09	Adopted FY 09-10	Percent Change
Capital Outlay				
Rolling Stock	\$6,981,458	\$6,394,950	\$1,479,320	-76.9%
Computer Equipment	11,424	49,100	0	-100.0%
General Equipment	1,822,181	488,160	0	-100.0%
Other	1,338,443	179,750	361,440	101.1%
Total Expenditures by Type	\$10,153,506	\$7,111,960	\$1,840,760	-74.1%
RESOURCES BY TYPE				
North Carolina Municipal Leasing Corp.	\$10,153,506	\$7,111,960	\$1,840,760	-74.1%
Total Resources by Type	\$10,153,506	\$7,111,960	\$1,840,760	-74.1%

BUDGET HIGHLIGHTS

- The budget for FY 09-10 reflects a net decrease of \$5,271,200, or 74.1%, due to the city's efforts to balance the budget by reducing expenditures on equipment. The budget does not include the purchase of new equipment and limits the replacement of equipment to rolling stock in the worst condition, as identified by the Fleet Services Department. The budget also includes the purchase of an additional 5,000 carts for the voluntary curbside refuse collection program to ensure that the Sanitation Division has a sufficient inventory to meet demand for the service. The budget also provides for the replacement of mobile data computers and bulletproof vests for the Police Department.
- The FY 09-10 list of equipment to be financed through the North Carolina Municipal Leasing Corporation can be found in the Supplemental Information section of this document.