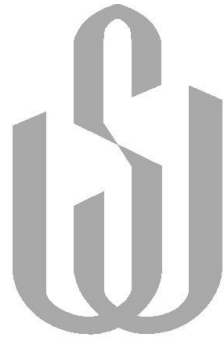


DEBT MANAGEMENT

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Winston-Salem

DEBT SERVICE

PROGRAM DESCRIPTIONS

Debt Service Fund

- 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 Winston-Salem Entertainment-Sports Complex, 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.

Downtown Ballpark Fund

- Accounts for the principal and interest payments required to pay off debt financings acquired to purchase the land and construct the new downtown ballpark (i.e., BB&T Ballpark).
- Resources include lease payments from the developer, baseball ticket surcharges, and the incremental property tax revenue generated from the new development.

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, 2009 net bonded debt per capita was \$376.

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 FY 08-09 annual financial report shows Winston-Salem at 14.9%.

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 08-09 annual financial report indicates the City's net outstanding general obligation debt is \$78.9 million, which is 0.4% of the City's total assessed valuation of taxable property. This leaves a legal debt margin of approximately \$1.53 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.

DEBT SERVICE

EXPENDITURES BY TYPE	Actual	Amended	Adopted	Percent
Debt Service Fund	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>FY 10-11</u>	<u>Change</u>
Principal Retirement	\$7,872,921	\$6,955,310	\$5,538,520	-20.4%
Capital Lease Charges	1,834,024	2,390,100	1,937,720	-18.9%
Interest Payments	7,831,701	8,145,430	8,712,180	7.0%
Fiscal Charges	107,814	128,000	246,970	92.9%
Administrative Expenses	44,810	82,610	53,120	-21.4%
Property Tax Collection Fee	85,152	62,320	57,450	-7.8%
Transfer to Capital Projects Fund	2,017,379	0	0	0%
Transfer to Mass Transit Tax Fund	91,587	87,210	30,270	-65.3%
Subtotal Debt Service Fund Expenditures	\$19,885,387	\$17,835,980	\$16,576,230	-7.1%
Downtown Ballpark Fund				
Principal Retirement	\$0	\$0	\$146,810	N/A
Capital Lease Charges	0	0	23,590	N/A
Interest Payments	0	0	925,000	N/A
Fiscal Charges	0	0	23,000	N/A
Subtotal Downtown Ballpark Fund Expenditures	\$0	\$0	\$1,118,400	N/A
Total Expenditures by Type	\$19,885,387	\$17,835,980	\$17,694,630	-7.8%
RESOURCES BY TYPE				
Debt Service Fund				
Property Taxes	\$9,704,259	\$9,740,770	\$9,625,780	-1.2%
ABC Allocation	323,509	333,020	306,990	-7.8%
Interest Income	-585,049	1,218,000	1,400,000	14.9%
Interest Subsidy on Recovery Zone Bonds	0	0	302,150	N/A
Other Revenues	581,479	841,870	854,280	1.5%
Transfer from General Fund				
- Debt Service on Dell Project	400,000	400,000	400,000	0%
- Lease Payment for 800 mHz Radios	223,860	0	0	0%
-Debt Service on Brookstown Project	0	113,640	0	-100.0%
- Lease Payment for Downtown Arts Center	0	0	50,000	N/A
- Lease Payment for Convention Center Capital	0	0	50,000	N/A
Transfer from Sales Tax Fund	4,512,538	4,409,700	3,964,050	-10.1%
Transfer from Capital Projects Fund	2,017,379	0	0	0%
Proceeds from Debt Refunding	4,802	0	0	0%
Use/-Addition to Fund Balance	2,702,611	778,980	-377,020	-226.7%
Subtotal Debt Service Fund Resources	\$19,885,387	\$17,835,980	\$16,576,230	-7.1%

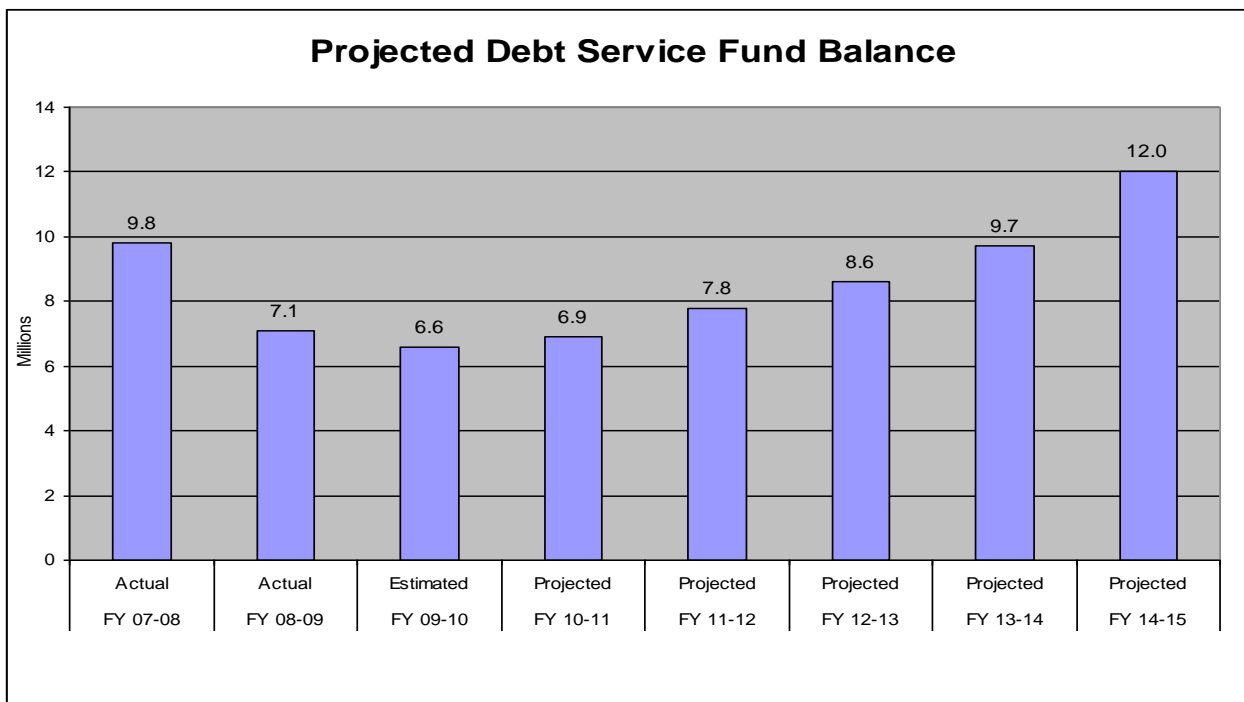
DEBT SERVICE

RESOURCES BY TYPE – Continued	Actual FY 08-09	Amended FY 09-10	Adopted FY 10-11	Percent Change
Downtown Ballpark Fund				
Lease Payments	\$0	\$0	\$708,140	N/A
Ticket Surcharge	0	0	350,000	N/A
Other Revenue	0	0	0	-100.0%
Transfer from General Fund	0	0	93,100	-18.1%
Use/-Addition to Fund Balance	0	0	-32,840	-106.6%
Subtotal Downtown Ballpark Fund Resources	\$0	\$0	\$1,118,400	-14.5%
Total Resources by Type	\$19,885,387	\$17,835,980	\$17,694,630	-7.8%

BUDGET HIGHLIGHTS

Debt Service Fund

- Debt service fund expenditures are decreased \$1,259,750, or 7.1%, primarily due to decreases in principal retirement and capital lease charges.
- Revenues from the debt service fund’s allocation of the property tax and sales tax are decreased \$560,640, or 4.0%, due to the impact of the recession on the tax base and consumer spending.
- The transfer from the general fund includes \$50,000 to cover the lease payment on the former AC Delco building, which is being renovated into the Downtown Arts Center. The transfer also includes \$50,000 to cover the lease payment for financing \$250,000 in capital needs at the M.C. Benton, Jr. Convention and Civic Center, according to the City’s agreement with Noble Management Group.
- The following chart provides a five-year outlook for the debt service fund with no new debt issuances.



DEBT SERVICE

BUDGET HIGHLIGHTS – Continued

- Listed below are the outstanding general obligation bonds and outstanding principal and interest requirements, as of June 30, 2010:

PROJECTED OUTSTANDING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2010

<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	\$844,088
Development, housing, recreation, and streets	2002	8,550,000	2,895,000
Development, safety, streets, and refunding	2004	25,675,000	20,510,000
Development, recreation, safety, and streets	2006	19,925,000	18,380,000
Recreation, safety and streets	2008	5,105,000	4,905,000
Refunding	2009	8,435,000	8,020,000
Recreation, safety and streets	2010	4,785,000	4,785,000
Refunding	2010	24,750,000	24,510,000
Development, transportation and housing	2010	10,500,000	10,500,000
Total		\$113,224,964	\$95,349,088

PROJECTED GENERAL OBLIGATION BONDS DEBT SERVICE REQUIREMENTS TO MATURITY

<u>Year</u>	<u>General Purpose</u>
2011	8,694,086
2012	8,939,121
2013	9,859,659
2014	9,694,213
2015	8,783,207
2016-2020	41,694,052
2021-2025	35,510,619
2026-2030	12,701,409
2031-2032	1,663,073
Total	\$137,539,438

Downtown Ballpark Fund

- In January 2007, the City Council approved economic development assistance for the Brookstown Development Project, a downtown revitalization project that included the construction of a new baseball stadium. The City's initial investment in the stadium totaled \$12 million, which was funded from several sources. In July 2009, the City Council approved an additional \$14.7 million in order to complete the construction of the stadium. This additional investment was funded from the issuance of special obligation bonds. The total cost of the baseball stadium was \$48.7 million, of which the City's total investment was \$26.7 million, including \$2 million from a federal grant for stadium infrastructure improvements. The developer provided the remaining \$22 million in funding.
- The FY 10-11 budget appropriates \$1,118,400 for debt service associated with the City's investment in the stadium. Under the development agreement, the developer will make a lease payment to

DEBT SERVICE

BUDGET HIGHLIGHTS – Continued

the City that will cover the debt service on the City's additional \$12.7 million investment. For FY 10-11, the payment totals \$708,140. In addition to the lease payment, a ticket surcharge will be assessed and applied to the debt service associated with the City's initial \$12 million investment. For FY 10-11, estimated revenues from the surcharge total \$350,000. Taxes on \$19 million in additional tax base created from the original investment in the stadium will be used to pay the debt service associated with the City's initial investment. Based on the adopted tax rate, the FY 10-11 incremental tax payment totals \$93,100.

- The development agreement also provides for an incentive payment from the City that is equivalent to the property tax revenue generated above the \$19 million in additional tax base created. The budget transfers this revenue from the general fund to the economic development project fund.
- Based on the estimated revenues and debt service, the budget includes an addition to the fund balance of the downtown ballpark fund of \$32,840, which will help to cover future debt payments.

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.

	Actual	Budget	Adopted	Percent
EXPENDITURES BY TYPE	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>FY 10-11</u>	<u>Change</u>
Principal Retirement	\$1,958,480	\$20,069,360	\$2,211,870	-89.0%
Interest Payments	3,585,382	3,887,580	4,096,970	5.4%
Fiscal Expense	12,807	0	0	0%
Administrative Expense	410	0	0	0%
Transfer to Housing Finance Assistance Fund	731,017	0	0	0%
Total Expenditures by Type	\$6,288,095	\$23,956,940	\$6,308,840	-73.7%
RESOURCES BY TYPE				
Lease Payments - City	\$14,505,056	\$15,149,160	\$14,684,440	-3.1%
Lease Payments - Outside Agencies	1,060,624	805,700	737,420	-8.5%
Investment Income	123,941	0	0	0%
Proceeds from Capital Leases	-11,456,996	0	0	0%
Transfer from Housing Finance Assistance Fund	731,017	0	0	0%
Fund Balance Appropriation	1,324,452	8,002,080	0	-100.0%
Total Resources by Type	\$6,288,095	\$23,956,940	\$15,421,860	-35.6%
Addition to Fund Balance	\$0	\$0	\$9,113,020	N/A

LEASING FUND

BUDGET HIGHLIGHTS

- The budget is decreased 73.7% due to a balloon payment in FY 09-10 to retire previously authorized certificates of participation that were issued to fund the purchase of capital equipment. In FY 10-11, there is no balloon payment scheduled; therefore, the lease payments from City departments and outside agencies will increase the fund balance by \$9.1 million to meet the future balloon payment requirement.

- The budget does not include an estimate for investment income due to recent investment performance in this fund.

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 08-09	Budget FY 09-10	Adopted FY 10-11	Percent Change
Capital Outlay				
Rolling Stock	\$3,536,059	\$1,479,320	\$2,612,490	76.6%
Computer Equipment	11,689	0	0	0%
General Equipment	291,421	0	231,120	N/A
Other	570,611	361,440	1,931,950	434.5%
Total Expenditures by Type	\$4,409,780	\$1,840,760	\$4,775,560	159.4%
RESOURCES BY TYPE				
North Carolina Municipal Leasing Corp.	\$4,409,780	\$1,840,760	\$4,775,560	159.4%
Total Resources by Type	\$4,409,780	\$1,840,760	\$4,775,560	159.4%

BUDGET HIGHLIGHTS

- The FY 10-11 budget is increased \$2,934,800, or 159.4%. Despite the increase, the budget limits the replacement of equipment to rolling stock in the worst condition. The budget includes the purchase of 32,000 roll-out carts for the conversion to mandatory curbside refuse collection (+\$1,600,000). General equipment includes the purchase of snow plows, salt spreaders, and an alternative daily cover system for Hanes Mill Road Landfill. The budget also provides for the replacement of mobile data computers and 420 bulletproof vests for the Police Department.
- The FY 10-11 list of equipment to be financed through the North Carolina Municipal Leasing Corporation can be found in the Supplemental Information section of this document.