
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 (11.30 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, 2018 net bonded debt per capita was \$682.

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 2017-18 annual financial report shows Winston-Salem at 15.7%.

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 2017-18 annual financial report notes the City's net outstanding general obligation debt is \$165.7 million, which is 0.76% of the City's total assessed valuation of taxable property. This leaves a legal debt margin of approximately \$1.59 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, Moody's Investors Service, and Standard and Poor's Corporation.

EXPENDITURES AND REVENUES SUMMARY

EXPENDITURES BY TYPE	Actual FY 17-18	Budget FY 18-19	Proposed FY 19-20	Percent Change
Principal Retirement	\$15,480,672	\$18,284,770	\$19,206,160	5.0%
Interest Payments	12,393,753	12,119,010	11,478,940	-5.3%
Fiscal Charges	148,461	246,970	246,970	0%
Administrative Expenses	121,177	118,040	147,850	25.3%
Payments to Forsyth County	0	0	437,500	N/A
Property Tax Collection Fee	42,147	35,520	42,150	18.7%
Transfer to Fair Capital Fund	2,000,000	0	0	N/A
Total Expenditures by Type	\$30,186,210	\$30,804,310	\$31,559,570	2.5%

DEBT SERVICE FUND

RESOURCES BY TYPE	Actual FY 17-18	Budget FY 18-19	Proposed FY 19-20	Percent Change
Property Taxes	\$15,317,228	\$15,294,630	\$24,455,680	59.9%
Sales Taxes	6,462,876	6,752,410	7,057,010	4.5%
ABC Allocation	783,083	849,920	856,070	0.7%
Interest Income	1,808,372	500,000	600,000	20.0%
Interest Subsidy on Recovery Zone Bonds	245,871	232,260	220,700	-5.0%
Forsyth County	227,654	231,310	228,310	-1.3%
Other Revenues	2,615,928	2,663,430	2,664,810	0%
Bond Proceeds	70,000	0	0	N/A
North Carolina Municipal Leasing Corp. Proceeds	2,015,000	0	0	N/A
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	184,800	185,120	188,520	1.8%
Debt Service on Bryce A. Stuart Municipal Building	1,201,370	1,164,400	1,137,360	-2.3%
Fund Balance Appropriation	0	2,330,830	0	-100.0%
Total Resources by Type	\$31,532,182	\$30,804,310	\$38,008,460	23.4%
Addition to Fund Balance	\$1,345,972	\$0	\$6,448,890	N/A

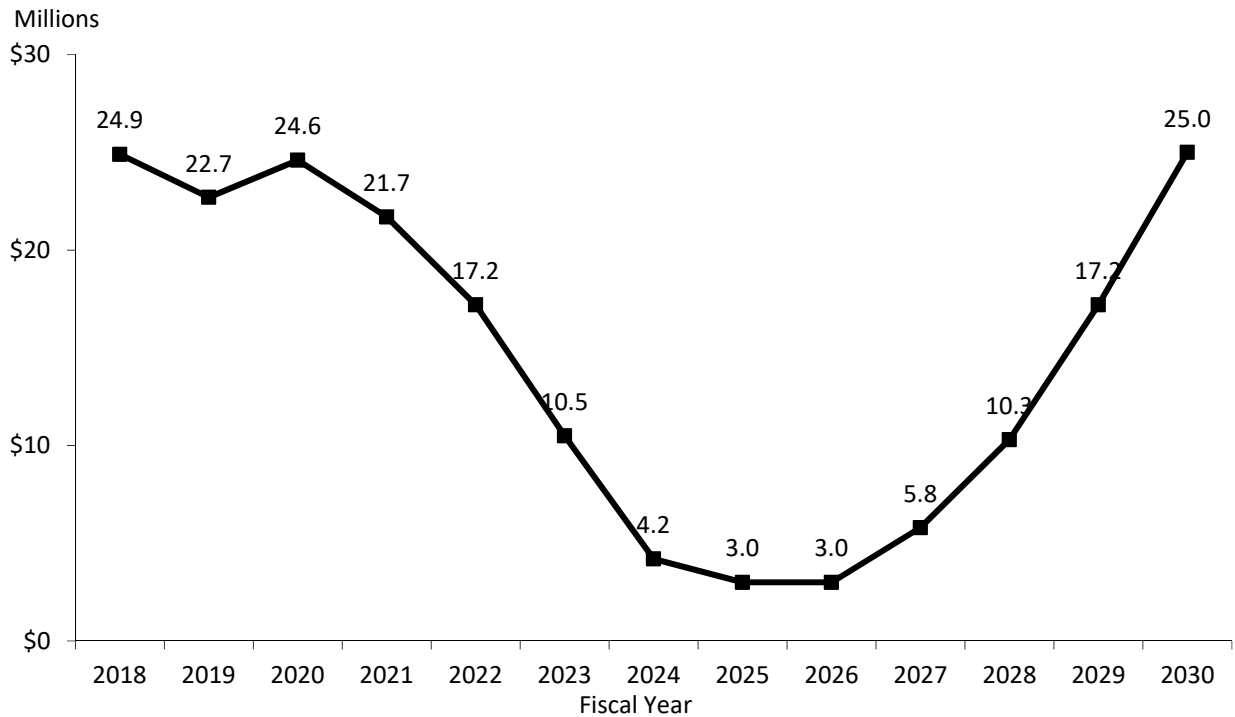
BUDGET HIGHLIGHTS

- Debt service fund expenditures increased \$755,260, or 2.5%, mainly attributable to increased debt payments for general obligation bonds and a payment to Forsyth County for the City of Winston-Salem's share of the debt service on the new City-County Courthouse Parking Deck.
- The proposed budget increases the property tax rate allocated to the debt service fund by 4 cents, to 11.30 cents. This is to cover debt service payments for the 2018 voter approved general obligation bonds. Projected sales tax revenues in the debt service fund increased \$304,600, or 4.5%, due to current and anticipated growth in retail sales. The proposed budget also increases interest income by \$100,000.
- 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 the issuance of the \$25.5 M balance of the 2014 general obligation bonds referendum, the issuance of the \$122 M of 2018 bonds in FY 2019-20 and FY 2021-22, and other anticipated financings.

DEBT SERVICE FUND

BUDGET HIGHLIGHTS - Continued

Projected Debt Service Fund Balance



- Listed below are the outstanding general obligation bonds and outstanding principal and interest requirements, as of June 30, 2019.

PROJECTED OUTSTANDING GENERAL OBLIGATION BONDS AS OF JUNE 30, 2019

<u>Purpose of Bond Issue</u>	<u>Year of Issue</u>	<u>Original Issue Amount</u>	<u>Principal Balance</u>
Recreation, safety and streets	2008	\$5,105,000	\$3,105,000
Refunding	2009	8,435,000	1,080,000
Recreation, safety and streets	2010	4,785,000	3,110,000
Refunding	2010	24,750,000	11,500,000
Development and streets	2010	8,700,000	6,825,000
Recreation, safety and streets	2012	2,955,000	1,905,000
Refunding	2012	14,255,000	8,935,000
Recreation, safety and streets	2014	3,945,000	2,945,000
Public improvement, recreation and streets	2016	3,810,000	3,405,000
Development, recreation, safety, and streets	2016	47,820,000	47,820,000
Development and Housing	2016	6,845,000	1,485,000
Refunding	2016	12,655,000	10,690,000
Public improvement, recreation and streets	2017	4,775,000	4,600,000
Public improvements, recreation, streets, & housing	2017	54,690,000	54,690,000
Development	2017	4,340,000	2,185,000
Total		\$207,865,000	\$164,280,000

DEBT SERVICE FUND

BUDGET HIGHLIGHTS - Continued

PROJECTED GENERAL OBLIGATION BONDS DEBT SERVICE REQUIREMENTS TO MATURITY AS OF JUNE 30, 2019

<u>Year</u>	<u>General Purpose</u>
2020	\$ 17,438,952
2021	17,043,641
2022	16,503,792
2023	16,520,402
2024	16,636,510
2025-2029	62,385,957
2030-2034	48,185,927
2035-2037	22,475,762
Total	\$217,190,943

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

EXPENDITURES BY TYPE	Actual FY 17-18	Budget FY 18-19	Proposed FY 19-20	Percent Change
Principal Retirement	\$9,620,000	\$12,755,000	\$15,900,000	24.7%
Interest Payments	1,061,023	925,010	857,230	-7.3%
Fiscal Charges	41,085	0	0	N/A
Total Expenditures by Type	\$10,722,108	\$13,680,010	\$16,757,230	22.5%
RESOURCES BY TYPE				
Lease Payments – City	\$26,608,078	\$12,636,540	\$10,312,980	-18.4%
Lease Payments – Outside Agencies	412,886	417,120	415,870	-0.3%
Investment Income	270,618	0	0	N/A
Transfer from General Fund	52,535	70,190	0	-100.0%
Fund Balance Appropriation	0	556,160	6,028,380	983.9%
Total Resources by Type	\$27,344,117	\$13,680,010	\$16,757,230	22.5%
Addition to Fund Balance	\$16,622,010	\$0	\$0	N/A

BUDGET HIGHLIGHTS

- The proposed FY 2019-20 budget includes payments of \$16.76 million to retire previously authorized LOBs. The proposed budget includes a \$6,028,380 appropriation of fund balance.
- The proposed budget no longer includes a transfer from the general fund to cover the lease payment on the former AC Delco building, which has been renovated into the Downtown Arts Center. FY 2018-19 was the final year for transfers from the general fund for the Downtown Arts Center.

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

EXPENDITURES BY TYPE	Actual	Budget	Proposed	Percent
Capital Outlay	<u>FY 17-18</u>	<u>FY 18-19</u>	<u>FY 19-20</u>	<u>Change</u>
Rolling Stock	\$3,717,095	\$3,200,000	\$3,793,570	18.5%
Computer Equipment	0	0	170,000	N/A
General Equipment	607,891	0	305,000	N/A
Other	721,659	695,090	920,050	32.4%
Total Expenditures by Type	\$5,046,645	\$3,895,090	\$5,188,620	33.2%
RESOURCES BY TYPE				
North Carolina Municipal Leasing Corporation	\$5,046,645	\$3,895,090	\$5,188,620	33.2%
Total Resources by Type	\$5,046,645	\$3,895,090	\$5,188,620	33.2%

BUDGET HIGHLIGHTS

- The proposed budget for the leasing equipment acquisition fund is increased \$1,293,530 or 33.2%. Vehicle and equipment replacements include fire trucks, police cars, sanitation trucks, and other equipment and rolling stock.
- The complete list of capital outlay to be financed through the North Carolina Municipal Leasing Corporation in FY 2019-20 can be found in the Supplemental Information section of this document.



Winston-Salem