

# Funding the WCPSS Capital Plan

October 30, 2017



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# Presentation Outline

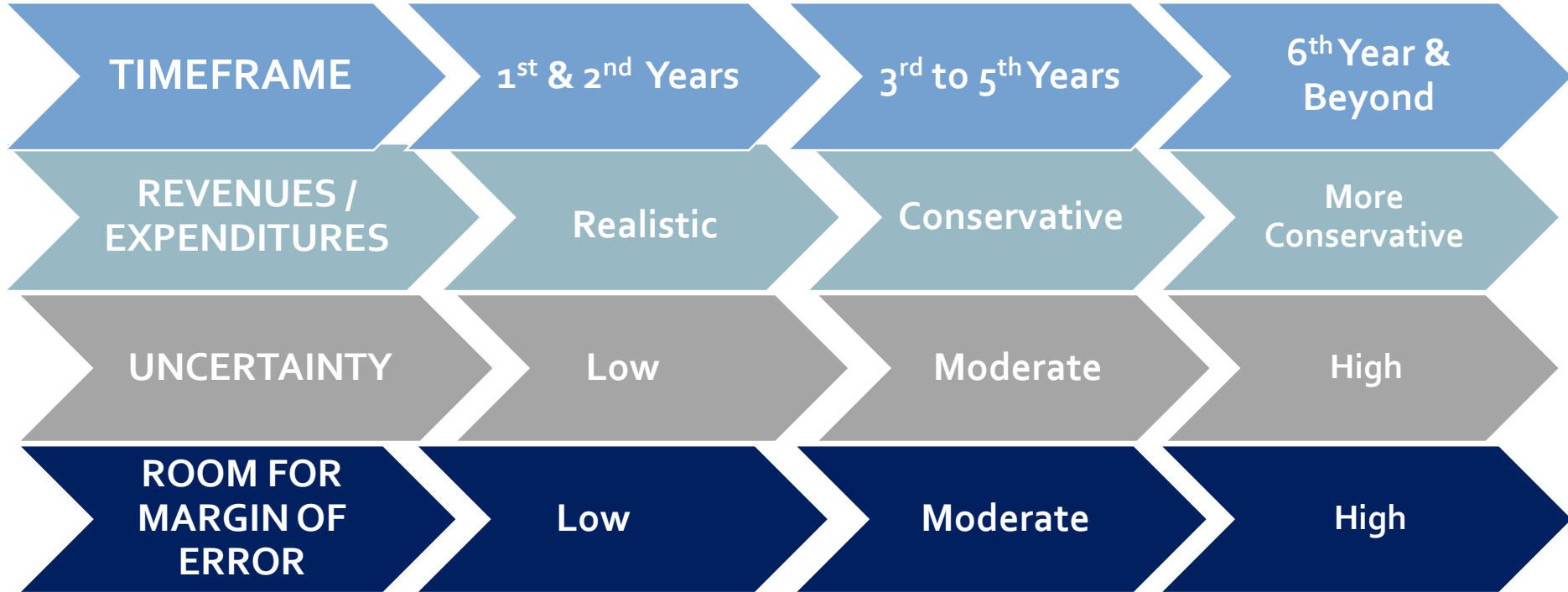
- Financial Modeling
- Financial Policy Constraints
- Methods of Financing
- Debt Capacity
- Referendum Planning

# Financial Capacity Modeling

Capacity is determined through the county's financial modeling:

- Using defined **assumptions** updated regularly that identify
- **Revenues** required to fund the 7-year program with a
- Combination of **pay-as-you-go cash and debt** funding that
- Comply with the County's **financial policies.**

# Assumptions Continuum



# Summary of Assumptions in Model

<b>GROWTH RATES:</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021*</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025*</b>	<b>2026</b>	<b>2027</b>
<b>Total Property Tax Rate</b>	<b>61.50</b>	<b>61.50</b>	<b>61.50</b>	<b>57.05</b>	<b>57.05</b>	<b>57.05</b>	<b>57.05</b>	<b>52.92</b>	<b>52.92</b>	<b>52.92</b>
<b>Property Tax Rate for Capital</b>	<b>18.76</b>	<b>18.76</b>	<b>18.76</b>	<b>17.40</b>	<b>17.40</b>	<b>17.40</b>	<b>17.40</b>	<b>16.14</b>	<b>16.14</b>	<b>16.14</b>
<b>Property Tax Valuation Growth</b>	<b>2.90%</b>	<b>2.75%</b>	<b>2.50%</b>	<b>10.50%</b>	<b>2.50%</b>	<b>2.50%</b>	<b>2.50%</b>	<b>10.50%</b>	<b>2.50%</b>	<b>2.50%</b>
<b>Sales tax annual growth rate</b>	<b>6.00%</b>	<b>6.00%</b>	<b>5.50%</b>	<b>5.50%</b>	<b>5.00%</b>	<b>5.00%</b>	<b>4.50%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>
<b>Investment rate</b>	<b>1.00%</b>	<b>1.35%</b>	<b>1.75%</b>	<b>2.00%</b>	<b>2.25%</b>	<b>2.50%</b>	<b>2.50%</b>	<b>2.50%</b>	<b>2.50%</b>	<b>2.50%</b>
<b>1-Month LIBOR</b>	<b>1.35%</b>	<b>1.76%</b>	<b>2.08%</b>	<b>2.21%</b>	<b>2.40%</b>	<b>2.52%</b>	<b>2.52%</b>	<b>2.52%</b>	<b>2.52%</b>	<b>2.52%</b>
<b>70% of 1-Month LIBOR</b>	<b>0.95%</b>	<b>1.23%</b>	<b>1.46%</b>	<b>1.55%</b>	<b>1.68%</b>	<b>1.76%</b>	<b>1.76%</b>	<b>1.76%</b>	<b>1.76%</b>	<b>1.76%</b>
<b>Spread: GO BANs vs. 70% of LIBOR</b>	<b>0.51%</b>	<b>0.51%</b>	<b>0.51%</b>	<b>0.51%</b>	<b>0.51%</b>	<b>0.51%</b>	<b>0.51%</b>	<b>0.51%</b>	<b>0.51%</b>	<b>0.51%</b>
<b>G.O. BANs Variable Interest Rate</b>	<b>1.46%</b>	<b>1.74%</b>	<b>1.97%</b>	<b>2.06%</b>	<b>2.19%</b>	<b>2.27%</b>	<b>2.27%</b>	<b>2.27%</b>	<b>2.27%</b>	<b>2.27%</b>
<b>LOB BANs Variable Interest Rate</b>	<b>1.66%</b>	<b>1.94%</b>	<b>2.17%</b>	<b>2.26%</b>	<b>2.39%</b>	<b>2.47%</b>	<b>2.47%</b>	<b>2.47%</b>	<b>2.47%</b>	<b>2.47%</b>
<b>Fixed Rate TIC (GO)</b>	<b>3.25%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>
<b>Fixed Rate TIC (LOBs)</b>	<b>3.75%</b>	<b>4.50%</b>	<b>4.50%</b>	<b>4.50%</b>	<b>4.50%</b>	<b>4.50%</b>	<b>4.50%</b>	<b>4.50%</b>	<b>4.50%</b>	<b>4.50%</b>

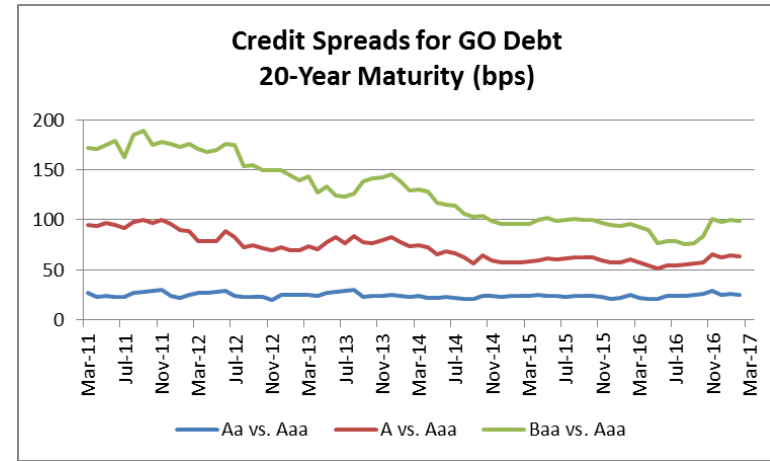
# Financial Policies Constrain Capacity

The County develops a **seven-year capital** plan that adheres to debt policies and specific **financial targets necessary to maintain Aaa/AAA/AAA rating**

The Triple-A rating is important as it **determines the cost of borrowing** of debt issued – an important factor given that approximately 80% of capital plan is debt funded.

# Benefit of Triple-A to the Taxpayer

- Wake County's Aaa/AAA/AAA rating allows the County to have the lowest cost of financing available in the market.
- Wake County is one of 46 Counties in the United States rated by all three rating agencies as triple-A.



Additional 1% interest cost on \$2 billion of debt would cost the County \$20 million per year, or 1.4 cents on today's tax rate

An additional 1% cost of CIP 2013 bonds would cost an additional \$85 million in net interest over the life of the debt.

# Debt vs. Cash

- Debt financing allows the lowest burden to tax payers as the County provides legally required capital
- Cost of capital is spread over time
- Current and future taxpayers share cost and benefit of the asset



Willow Spring High

	Example \$97M High School	
	100% Debt	100% Cash
Amount Spent Over Three Years	\$27.7 M	\$97 M
Tax Increase Assuming Zero Capacity Exists	0.68 cents	2.3 cents

# When does the County use debt?

- Cost to build/purchase is large
- Can be a single asset
  - Jail
  - New Courthouse
  - School
- A Collection of like assets that total a large amount
  - Libraries
  - Open Space
  - Life Cycle Replacement and Equipment at WCPSS/WTCC Facilities
- Expected life of the asset is long (life of asset should equal or exceed debt pay-off)

# Methods of Financing Capital Projects

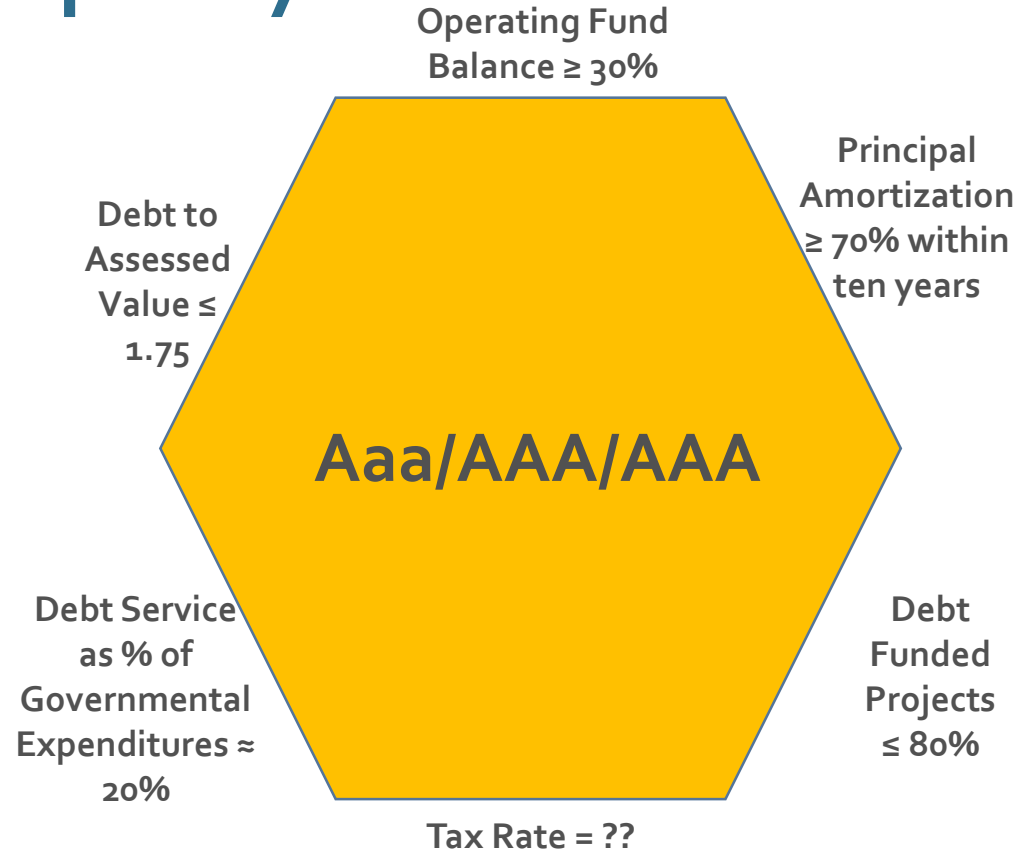
	CAPITAL FUNDING						
	DEBT OPTIONS		CASH - DEDICATED REVENUE SOURCES				
	General Obligation Bonds	Limited Obligation Bonds	Property Tax: 18.76 cents of 61.50 cents	Investment Earnings	Sales Tax - 30% of Art. 40 (1/2 cent)	Sales Tax - 60% of Art. 42 (1/2 cent)	Lottery: \$10 M / YR
<i>Requires a Voter Referendum (Even Years Only)</i>	Yes	No	No	No	N/A	N/A	No
<i>Requires a Tax Increase</i>	Maybe	Maybe	Maybe	No	At Max	At Max	N/A
Capital Type	FUNDING USES						
WCPSS	X	X	X	X	X	X	X
Wake Tech	X	X	X	X			
Human Services Facilities	X	X	X				
Criminal Justice Facilities	X	X	X				
Parks, Recreation & Open Space	X		X				
Libraries	X		X				
Housing	X		X				
County Capital Elements - General			X				

# Debt and Capital Policies and Guidelines

- County will maintain **Fund Balance** that meet standards of Aaa/AAA/AAA counties ( $\geq 30\%$  Combined General Fund and Debt Service Fund Revenues)
- **Debt to Assessed Value** is managed to stay within expected ranges for a Aaa/AAA/AAA rating ( $\leq 1.75$ )
- **Debt Repayment** Schedule Meets Standards of Aaa/AAA/AAA Counties ( $\geq 70\%$  principal paid within ten years)
- County will monitor annual **debt service expenditures** as a total of governmental expenditures and strive not to exceed 20%
- Access to debt funding is secured via **Bond Anticipation Notes** prior to appropriation of funds and entering into contractual commitments
  - Variable rate debt shall not exceed 25% of overall debt outstanding
- Maintain average **80% Debt 20% Cash** Funding Ratio over 7 year plan

# Calculating Capital Capacity

- Capital capacity and corresponding tax rate is determined by solving for an amount that ensures compliance with all financial policies.
- To fully meet projected funding needs for Education Purposes alone will require a tax increase to generate sufficient revenues



# BOE Request of BOC to Fund Plan

## Excerpts from Wake County Board of Education Resolution

**WHEREAS**, the Board of Commissioners has various options in how to provide funds to provide the additional amounts requested, including, without limitation, the calling of a bond referendum to authorize the issuance of general obligation bonds, the issuance of limited obligation bonds, the issuance of bonds anticipation notes in anticipation of the issuance of general obligation bonds or limited obligation bonds and funding a portion of the costs on a “pay as you go” basis, and also has various options for the timing of such actions to meet appropriations;

**BE IT THEREFORE RESOLVED**, the Board hereby requests and petitions the Board of Commissioners for the County of Wake, North Carolina to take all necessary steps, by the issuance of bonds or otherwise, to provide funds for the school system’s capital building needs as described above.

Resolved this 2nd day of May 2017.

THE WAKE COUNTY BOARD OF EDUCATION

# County's Funding Strategy

County will develop a fiscally responsible funding strategy that:

- Takes into account all resource needs for the community, both operating and capital,
- Complies with financial policies,
- Considers cost of capital, and;
- Dedicates revenue streams to ensure plans are fully funded.

# Referendum Planning

General Obligation Bonds, the lowest cost option for debt financing, requires a voter referendum. Options are:

- For May 2018 Ballot, Board Actions Commence in January 2018
- For November 2018 Ballot, Board Actions Commence in July 2018

DEBT AND CAPITAL PLANNING - TIMING, TAXES AND PURPOSES																										
CALENDAR YEARS	2018				2019				2020				2021				2022				2023					
CALENDAR QUARTERS	Jan - Mar	April - June	July - Sept	Oct - Dec	Jan - Mar	April - June	July - Sept	Oct - Dec	Jan - Mar	April - June	July - Sept	Oct - Dec	Jan - Mar	April - June	July - Sept	Oct - Dec	Jan - Mar	April - June	July - Sept	Oct - Dec	Jan - Mar	April - June	July - Sept			
FISCAL YEARS	FY 18		FY 19		FY 20		FY 21		FY 22		FY 23															
<b>BALLOT QUESTIONS</b>	<b>SECTION 3: Timing of County-wide Elections</b>																									
General Obligation (GO) Bonds - May Vote with June Property Tax Increase		Vote & Tax	G.O Debt Avail																							
Ballot Amount																										
General Obligation (GO) Bonds - November Vote with June Property Tax				Vote		Tax	G.O Debt Avail								Vote		Tax	G.O Debt Avail						Vote	Tax	G.O Debt Avail
Ballot Amount																										

# Referendum History

Majority of referendum have been held during fall county-wide elections

Referendum	Purpose	Program Amount (in millions)	Bond Amount (in millions)	Tax for Capital and Debt Service (in cents)	% Voter Approval	Voter Turnout	% Voter Turnout
June 1993	Libraries	\$ 10	\$ 10	0.00	55.7%	46,319	18.5%
	Parks	\$ 10	\$ 10	0.00	50.5%		
	Wake Tech	\$ 30	\$ 30	0.00	51.3%		
	WCPSS	\$ 300	\$ 200	0.00	56.3%		
June 1996	WCPSS	\$ 400	\$ 250	0.00	79.0%	40,773	13.5%
June 1999	WCPSS	\$ 940	\$ 650	13.00	35.0%	90,741	24.5%
November 2000	Open Space	\$ 15	\$ 15	0.00	76.6%	275,112	68.8%
	Public Safety	\$ 20	\$ 20	0.00	57.8%		
	WCPSS	\$ 550	\$ 500	0.00	77.9%		
October 2003	Libraries	\$ 35	\$ 35	0.00	67.5%	87,724	20.9%
	WCPSS	\$ 550	\$ 450	0.00	64.2%		
November 2004	Open Space	\$ 26	\$ 26	0.00	73.8%	359,429	78.0%
	Wake Tech	\$ 40	\$ 40	0.00	74.8%		
November 2006	WCPSS	\$ 1,056	\$ 970	2.70	53.2%	207,800	40.5%
October 2007	Libraries	\$ 45	\$ 45	0.30	70.0%	56,032	10.9%
	Open Space	\$ 50	\$ 50	0.30	71.4%		
	Wake Tech	\$ 115	\$ 92	0.75	67.5%		
November 2012	Wake Tech	\$ 210	\$ 200	0.00	72.9%	488,599	74.6%
October 2013	WCPSS	\$ 940	\$ 810	4.40	57.7%	98,889	15.4%
November 2016	1/2 Sales Tax - Transit				52.7%	531,253 (Total) 498,840 (Transit)	75.3%
	<b>Total</b>	\$ 5,342	\$ 4,403	21.45			
	<b>Approved</b>	\$ 4,402	\$ 3,753	8.45			

# WCPSS Referendum Planning

Referendum	Purpose - WCPSS	Tax Increase	Total	FY19	FY20	FY21	FY22	FY23	FY24
May 2018	Debt - GO	3.0 to 3.5 cents levied in June 2018 for FY19	\$1,103,402	\$ 312,483	\$ 277,019	\$ 265,857	\$ 248,043	Next vote - May 2022 or November 2022	
	Cash		\$ 159,134	\$ 23,132	\$ 30,497	\$ 52,755	\$ 52,750		
	Total		\$1,262,536	\$ 335,615	\$ 307,516	\$ 318,612	\$ 300,793		
<b>OR</b>									
November 2018	Debt - LOBs	3.0 to 3.5 cents levied in June 2019 for FY20	\$ 312,483	\$ 312,483					Next vote - November 2022
	Debt - GO		\$1,079,434		\$ 277,019	\$ 265,857	\$ 248,043	\$ 288,515	
	Cash		\$ 217,138	\$ 23,132	\$ 30,497	\$ 52,755	\$ 52,750	\$ 58,004	
	Total		\$1,609,055	\$ 335,615	\$ 307,516	\$ 318,612	\$ 300,793	\$ 346,519	
<i>All amounts are in millions</i>									

Same level of tax increase is needed for a two- or four-year bond, four-year is shown for illustration purposes

	Calendar Years			Notes
	2018 *	2019	2020*	* Referendum may only be held at time of county-wide elections.
Primary Revenue Sources				
Property Taxes			Property Tax Revaluation	Completion of 8-year cycle in 2016, moves to 4-year cycle beginning in 2020
		Fire Tax District Tax Increase?		Tax increase likely to support sustainable operations
Sales Tax	1/4 cent Local Sales Tax?		1/4 cent Local Sales Tax?	If enacted, generates approximately \$44 million annually
Operating Needs				
County	Population growth			Growing at more than 20,000 people a year increases demand for services
WCPSS	Student growth, new schools, new programs			Steady growth, numerous school openings will increase operating costs
WTCC	Increasing enrollment, new facilities			Requires county funding of start-up instructional costs and facility operations
Capital Needs				
WCPSS	G.O. Bond Referendum?		G.O. Bond Referendum?	WCPSS has identified needs of approximately \$300M annually
WTCC	G.O. Bond Referendum?		G.O. Bond Referendum?	Next major phase of building program is RTP Campus
Open Space / Parks	G.O. Bond Referendum?		G.O. Bond Referendum?	Master Plans completed - identified needs of \$140 million
Housing	G.O. Bond Referendum?		G.O. Bond Referendum?	Affordable Housing Plan adopted by BOC in Oct '17 - significant needs identified
Mental Health	Permanent Supportive Housing, Crisis Facilities			Oct '17 Mental Health Summit identified significant community needs
Human Services Facilities	Clients increasing, space insufficient			Ten-year Master Plan almost completed will call for new facilities and renovations
Libraries			G.O. Bond Referendum?	Last of 2007 bond projects to open in 2020

# Competing for Resources

# Capacity with a 3.5 cents tax increase

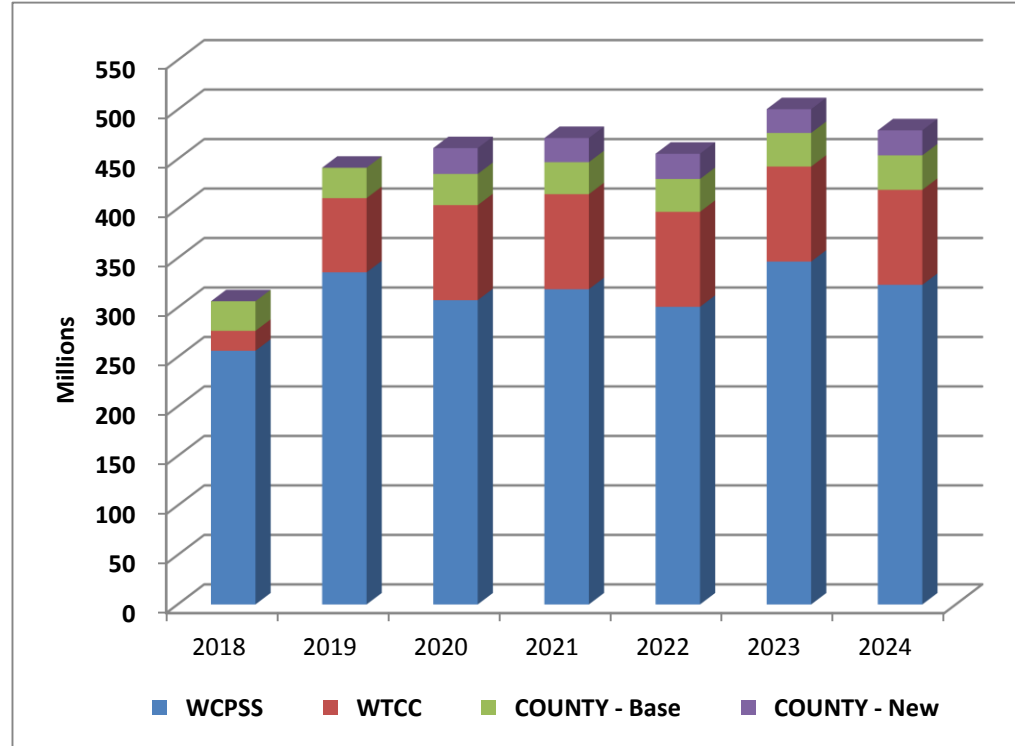
## May or November Ballot

FY19 WCPSS program accomplished regardless of ballot timing

WCPSS assigned the largest portion of capacity – a high priority to continue funding for the 7-year plan

If referendum **successful**, proceed forward with GO debt following vote, lowest cost option

If referendum **not successful**, move forward with LOBs, possible impact to program size or higher tax rate



# Next Steps

## County

Board of Commissioners to meet over the next few months to:

- Review updated capacity models
- Discuss total capital needs – types and amounts
- Identify preferred referendum path

## WCPSS

Update enrollment projections in collaboration with County

Joint Facilities Team continue to work and update 7-year plan



# Joint Board Discussion