

# DAVENPORT & COMPANY LLC®

Est. 1863 • Member: NYSE • SIPC

2424 GLENWOOD AVENUE

SUITE 201

RALEIGH, NC 27608-1332

&

ONE JAMES CENTER

901 EAST CARY STREET

14TH FLOOR

RICHMOND, VIRGINIA 23219

## Strategic Capital Planning Urban Issues Forum Agenda Prepared for

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**August 30, 2006**

# GOALS AND OBJECTIVES

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- **Establish a Comprehensive Plan of Finance for All Identified Capital Projects;**
- **Maintain Strong Debt and Fund Balance Ratios;**
- **Minimize, if not Avoid, any Future Real Estate Tax Rate Increase Associated with Financing the County's Capital Needs.**
- **Provide the County Staff and Board with an initial perspective on the "Affordability" of the Requested Capital Improvement Program.**
- **Measure the impact of funding the Requested Capital Improvement Program in terms of a number of Key Financial Ratios.**
- **Work towards establishing a Comprehensive Plan of Finance for All Identified Capital Improvement Projects.**

## **STEP 1 – IDENTIFY NEEDS**

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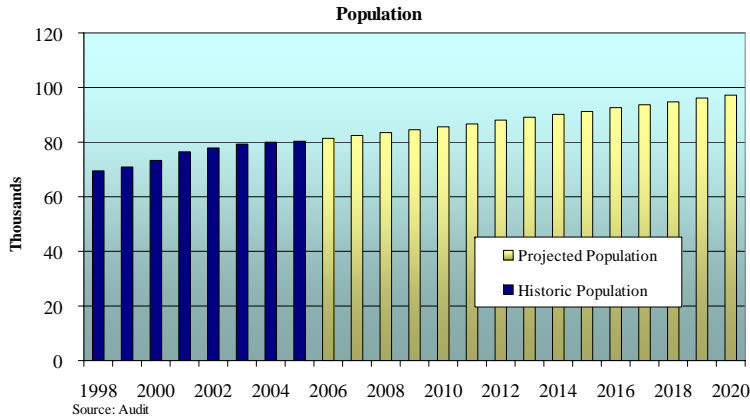
- **Develop/Update a Capital Improvement Program that identifies all capital needs and associated operational costs by fiscal year.**

## **STEP 2 – CONSIDER THE FUTURE**

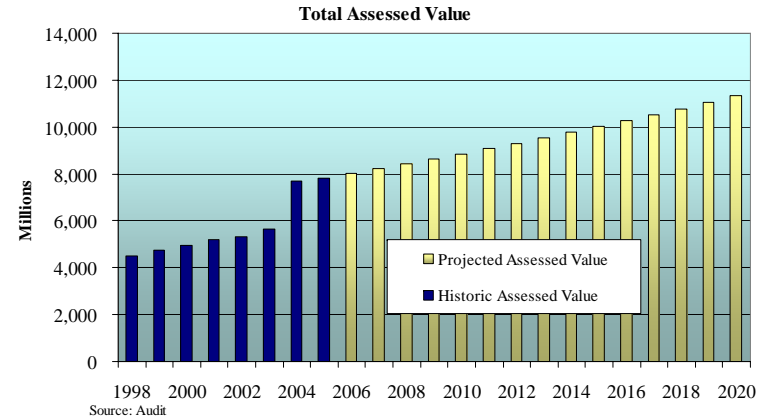
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- **Evaluate historical trends and establish projected growth trends for various County measurements:**
  - **Population, Assessed Value and Expenditures**
    1. **Project conservatively,**
    2. **Update and adjust projections annually based on the most current information available.**

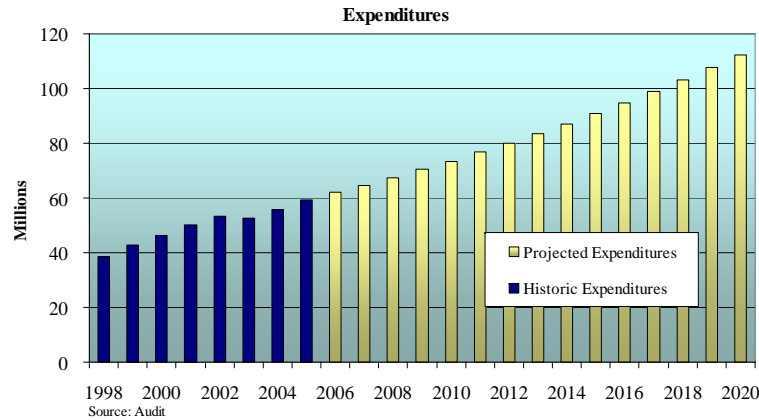
# HISTORIC AND PROJECTED GROWTH TRENDS



**Growth Rate** 1.27%  
**5-Year Avg.** 1.27%  
**10-Year Avg.** 1.83%



**Growth Rate** 2.50%  
**5-Year Avg.** 10.79%  
**10-Year Avg.** 7.04%



**Growth Rate** 4.33%  
**5-Year Avg.** 4.33%  
**10-Year Avg.** 6.35%

# EXISTING AND PROJECTED VALUE OF 1¢ - REAL ESTATE

Fiscal Year	Real Estate Valuation	Growth Rate	Fiscal Year	Value of 1¢	Cumulative Increase in Value of 1¢
1996	3,465,952,000	NA	2006	\$800,000	N/A
1997	3,535,204,000	2.00%	2007	830,000	30,000
1998	3,656,043,000	3.42%	2008	(1) <b>950,350</b>	150,350
1999	3,838,868,000	5.00%	2009	974,109	174,109
2000	4,014,561,000	4.58%	2010	998,461	198,461
2001	4,184,366,000	4.23%	2011	1,023,423	223,423
2002	4,355,217,000	4.08%	2012	1,049,009	249,009
2003	4,477,558,000	2.81%	2013	1,075,234	275,234
2004	6,534,961,000	45.95%	2014	1,102,115	302,115
2005	6,717,372,000	2.79%	2015	1,129,668	329,668
2006	6,885,306,300	2.50%	2016	1,157,909	357,909
2007	7,057,438,958	2.50%	2017	1,186,857	386,857
(1) 2008	8,080,767,606	14.50%	2018	1,216,528	416,528
2009	8,282,786,796	2.50%	2019	1,246,942	446,942
2010	8,489,856,466	2.50%	2020	1,278,115	478,115
2011	8,702,102,878	2.50%	2021	1,310,068	510,068
2012	8,919,655,450	2.50%	2022	1,342,820	542,820
2013	9,142,646,836	2.50%	2023	1,376,390	576,390
2014	9,371,213,007	2.50%	2024	1,410,800	610,800
2015	9,605,493,332	2.50%	2025	1,446,070	646,070
2016	9,845,630,666	2.50%	2026	1,482,222	682,222
2017	10,091,771,432	2.50%	2027	1,519,277	719,277
2018	10,344,065,718	2.50%	2028	1,557,259	757,259
2019	10,602,667,361	2.50%	2029	1,596,191	796,191
2020	10,867,734,045	2.50%			

<b>Growth Rate</b>	<b>2.50%</b>	Assumes Growth Rate of 2.50% Based on Real Estate Valuation
<b>5-Year Avg.</b>	<b>12.56%</b>	
<b>10-Year Avg.</b>	<b>7.63%</b>	

(1) Revaluation year; 12% has been used for the Revaluation estimate.

## **STEP 3 – EXAMINE THE CURRENT POSITION**

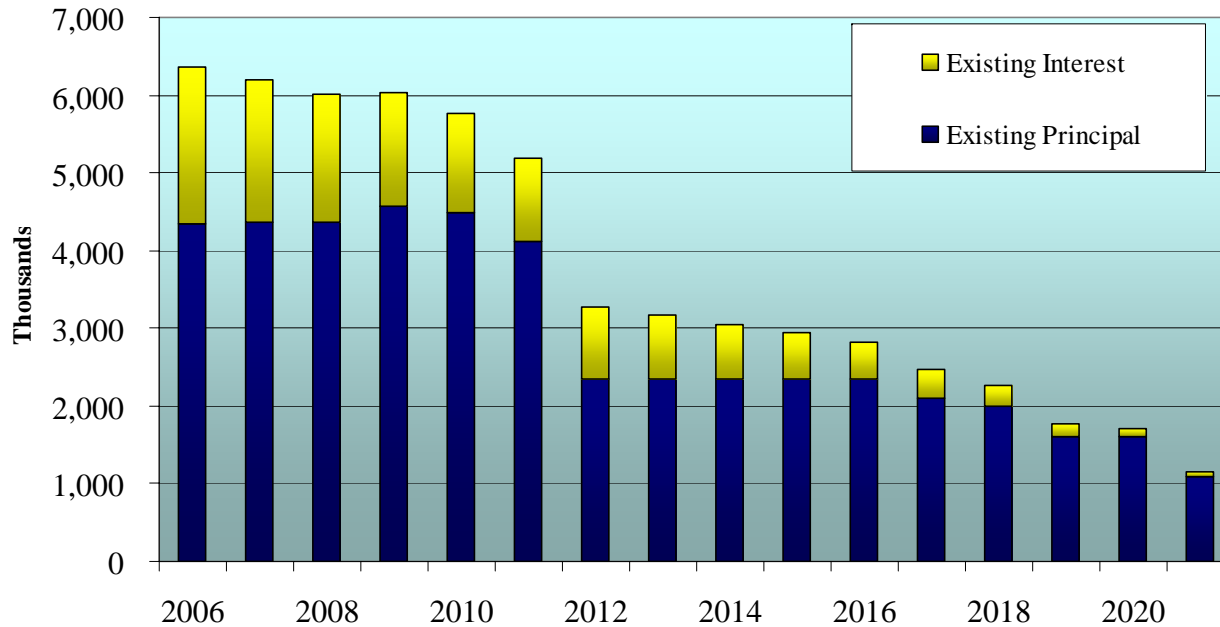
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- **Model the County’s existing debt obligations and develop a series of Key Financial Ratios so as to better understand the County’s current financial position:**
  - **10-Year Pay-out Ratio**
  - **Debt Per Capita**
  - **Debt : Assessed Value**
  - **Debt Service as a Percentage of Budget**

# EXISTING DEBT SERVICE – GENERAL FUND SUPPORTED DEBT

➤ **\$46,433,797 – Tax Supported Debt.**

• County/Governmental	<b>\$ 5,388,864</b>
• Schools	<b>30,571,641</b>
• Community College	<b>10,046,278</b>
• Airport	<b><u>427,014</u></b>
	<b>\$46,433,797</b>



Source: LGC Bond Ledger

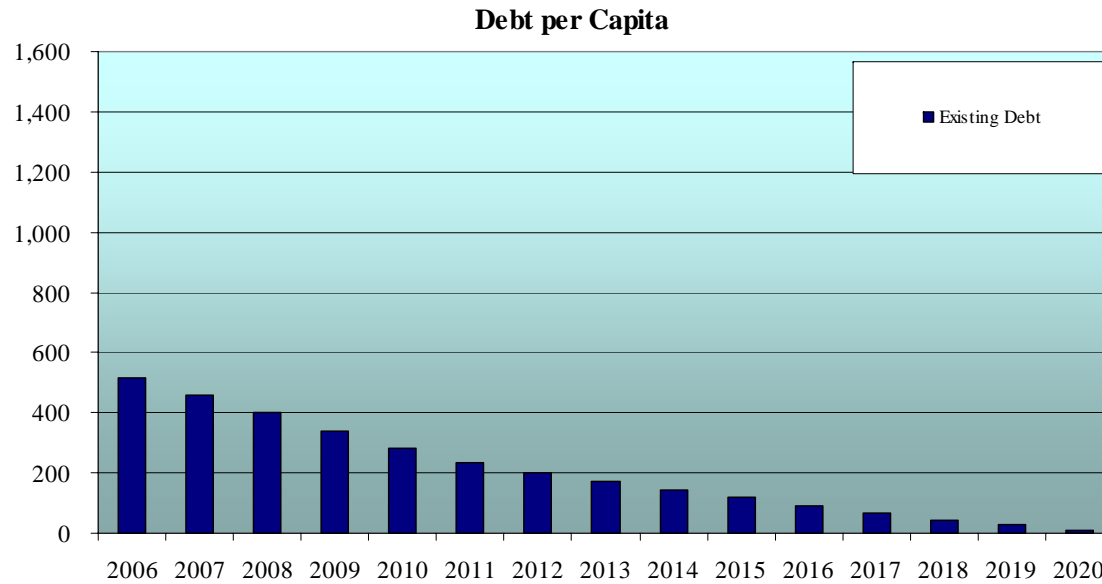
*All Enterprise Debt is Self-Supporting and has been excluded from this analysis.*

# PAYOUT RATIO – GENERAL FUND SUPPORTED DEBT



<u>Fiscal Year</u>	<u>Total Debt Service</u>			<u>Payout Ratio</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2006	4,344,451	2,018,735	6,363,186	9.36%
2007	4,365,269	1,835,347	6,200,616	18.76%
2008	4,368,249	1,650,085	6,018,334	28.16%
2009	4,563,887	1,459,498	6,023,386	37.99%
2010	4,490,009	1,266,928	5,756,936	47.66%
2011	4,123,802	1,073,442	5,197,244	56.54%
2012	2,355,626	918,053	3,273,679	61.62%
2013	2,355,626	813,798	3,169,424	66.69%
2014	2,355,626	698,965	3,054,591	71.76%
2015	2,355,626	584,133	2,939,759	76.84%
2016	2,355,626	473,303	2,828,929	81.91%
2017	2,100,000	364,150	2,464,150	86.43%
2018	2,000,000	263,150	2,263,150	90.74%
2019	1,600,000	178,750	1,778,750	94.19%
2020	1,600,000	112,750	1,712,750	97.63%
2021	1,100,000	46,750	1,146,750	100.00%
<b>Total</b>	<b>46,433,797</b>	<b>13,757,837</b>	<b>60,191,633</b>	

# EXISTING DEBT RATIOS



Source: LGC Bond Ledger

**North Carolina  
Benchmarks  
(50k – 100k)**

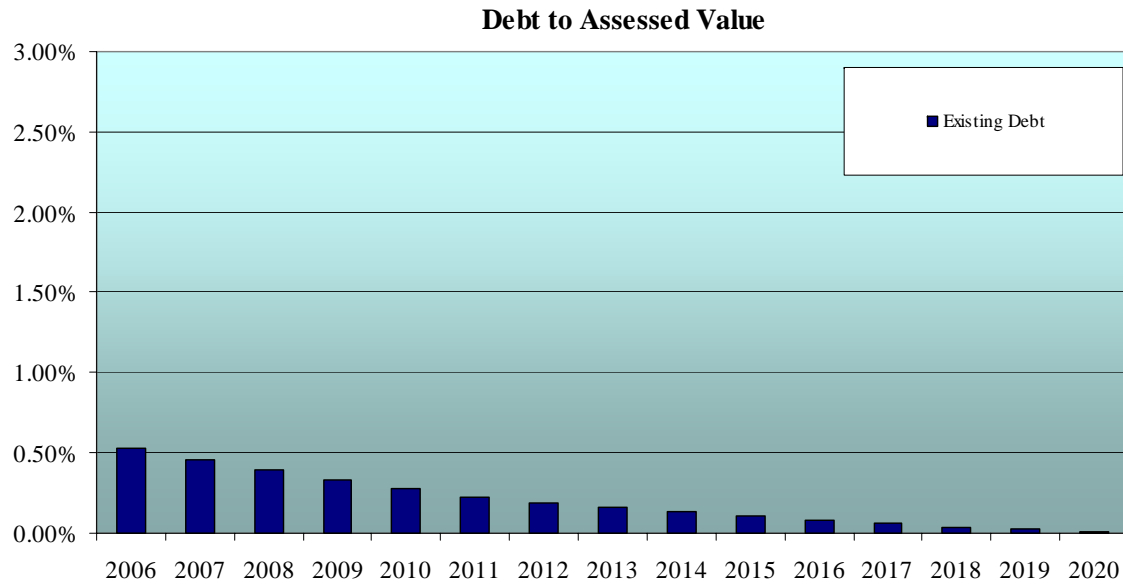
**High = \$1,566**

**Avg. = \$595**

**Low = \$79**

➤ **Population Growth = 1.27%**

# EXISTING DEBT RATIOS



Source: LGC Bond Ledger

**North Carolina  
Benchmarks  
(50k – 100k)**

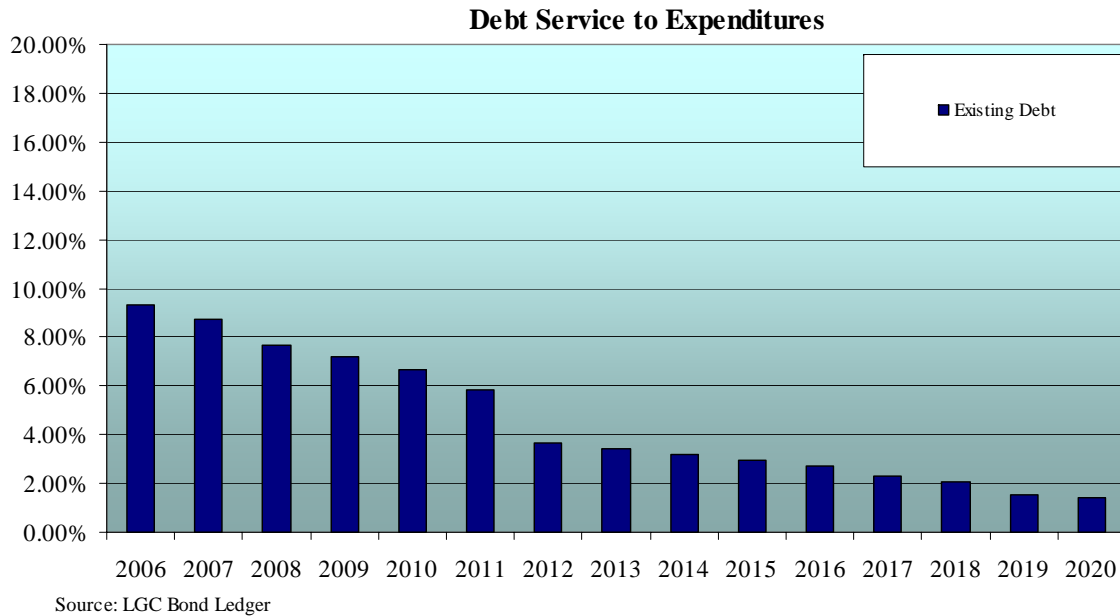
**High = 1.928%**

**Avg. = 0.852%**

**Low = 0.146%**

➤ **Assessed Value Growth = 2.50%**

# EXISTING DEBT RATIOS



**Investment  
Grade Range =  
7.0% - 15.0%**

➤ **Expenditures Growth = 4.33%**

## **STEP 4 – ASSESS STRENGTHS & WEAKNESSES**

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- **Evaluate current credit ratings and current financial position.**
- **Confirm compliance with Budget and Fiscal Control Act (i.e. ability to issue debt).**
- **Analyze current credit outlook for strengths and weaknesses. Consider potential increased debt burden and resulting loss of financial flexibility.**

## **STEP 5 – IDENTIFY & EVALUATE SOURCES OF FUNDS**

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- **Categorize both one-time sources and on-going sources.**
- **Establish a plan for pay-as-you-go financing for either debt buy-down (Project Equity) or debt service payment contributions (Reserves).**
- **Project those costs to be debt financed.**

# PROJECT COSTS – CURRENT REQUESTED CIP

## Use of Funds:

<u>Name of Project</u>	<u>FY'07</u>	<u>FY'08</u>	<u>FY'09</u>	<u>FY'10</u>	<u>FY'11</u>	<u>FY'12</u>	<u>FY'13</u>	<u>FY'14</u>	<u>FY'15</u>	<u>FY'16</u>	<u>Totals</u>
➤ Financial & Tax Software	1.500										1.500
➤ Public Safety Complex	0.426	7.126	0.333								7.885
➤ Airport Hangers	1.120										1.120
➤ Government Center	0.505	7.567	0.336								8.408
➤ Schools (Phases I, II & III)	20.676	18.404			24.000	24.000			29.000	29.000	145.080
➤ Jail / Detention Center		3.800									3.800
<b>Total Uses</b>	<b>24.227</b>	<b>36.897</b>	<b>0.669</b>	<b>0.000</b>	<b>24.000</b>	<b>24.000</b>	<b>0.000</b>	<b>0.000</b>	<b>29.000</b>	<b>29.000</b>	<b>167.793</b>

## Source of Funds:

➤ Installment Purchase (December 2006)	2.620										2.620
➤ Series 2007 (Spring 2007)	36.969										36.969
➤ Series 2008 (Spring 2008)		22.204									22.204
➤ Series 2011&2012 (Spring 2011&2012)					24.000	24.000					48.000
➤ Series 2012&2016 (Spring 2015&2016)									29.000	29.000	58.000
<b>Total Sources</b>	<b>39.589</b>	<b>22.204</b>	<b>0.000</b>	<b>0.000</b>	<b>24.000</b>	<b>24.000</b>	<b>0.000</b>	<b>0.000</b>	<b>29.000</b>	<b>29.000</b>	<b>167.793</b>

## Notes:

- (1) Dollars in Millions.
- (2) Debt Service related to FY2007 Issues begins in FY2008.

## **STEP 6 – IDENTIFY USES OF FUNDS**

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- **Identify capital costs by fiscal year.**
- **Identify one-time or “start-up” costs associated with certain projects.**
- **Identify annual or “on-going” costs related to operations that are not already accounted for in the budget.**

# OPERATING EXPENSES – SCHOOL (PHASE I ONLY)

## School Phase I Only

<u>One-Time Expenses (Start-up Costs):</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>
➤ General Start-up Costs		\$181,192				
➤ New Elementary Area III		\$26,424	\$28,141			
➤ New Middle School Area I	\$30,199	\$32,162				
<b>Totals</b>	<b>\$30,199</b>	<b>\$239,778</b>	<b>\$28,141</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## School Phase I Only - Ongoing Operating Expenses:

➤ Project 1			\$541,705	\$576,916	\$614,416	\$654,353
➤ Project 2		\$782,329	\$833,180	\$887,337	\$945,014	\$1,006,439
➤ Project 3			\$58,084	\$61,859	\$65,880	\$70,162
➤ Project 4		\$43,530	\$46,359	\$49,372	\$52,582	\$55,999
➤ Project 5			\$49,623	\$52,848	\$56,283	\$59,942
➤ Project 6		\$28,858	\$30,734	\$32,731	\$34,859	\$37,125
➤ Project 7		\$27,460	\$29,245	\$31,146	\$33,171	\$35,327
➤ Project 8		\$27,460	\$29,245	\$31,146	\$33,171	\$35,327
➤ Project 9		\$18,454	\$19,653	\$20,931	\$22,291	\$23,740
➤ Project 10		\$3,798	\$4,045	\$4,308	\$4,588	\$4,886
<b>Totals</b>	<b>\$0</b>	<b>\$931,888</b>	<b>\$1,641,873</b>	<b>\$1,748,595</b>	<b>\$1,862,254</b>	<b>\$1,983,300</b>

*Grow @ 6.5% Annually*

## **STEP 7 – DEVELOP A MODEL**

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- **Develop a Capital Planning Model that accommodates all of the required variables, that is interactive and that is readily understandable.**
- **Keep it simple.**

# PRELIMINARY FUNDING ANALYSIS

- Fund All Projects excluding School Phases II & III
- Level Principal Structure
- Upfront Tax Increase in FY2008 = 8.5¢ <sup>(1)</sup>

A	B	C	D	E	F	G	H	I	J	K	L	M	N	
								TOTAL REQUIREMENT						
<u>Annual Net Debt Service Payments</u>														
Fiscal Year	Existing Debt Service	Proposed CIP Debt Service	Existing & Proposed Debt Service	Recurring Additional Cost of Governmental Operations & Maintenance	Non-Recurring Additional Cost of School Operations & Maintenance	Recurring Additional Cost of School Operations & Maintenance	Total Debt Service, Operations, & Maintenance Needs	FY 06 Budgeted Debt Service	Revenues Available 2007 or 2008 Tax Increase	Capital Reserve Fund	Revenues Available	Additional Dollars to Surplus/ (Needed)	Estimated Incremental Tax Effect	
2006	6,363,186	0	6,363,186				6,363,186	6,363,186	0	0	6,363,186	0	N/A	
2007	6,200,616	0	6,200,616				6,200,616	6,363,186	0	0	6,363,186	162,570	--	
2008	6,018,334	4,667,900	10,686,234		30,199	0	10,716,433	6,363,186	8,043,785	0	14,406,971	3,690,538	8.5¢	
2009	6,023,386	7,052,205	13,075,591	1,580,439	239,778	931,888	15,827,696	6,363,186	8,043,785	1,420,725	15,827,696	0	--	
2010	5,756,936	6,852,200	12,609,136	1,648,872	28,141	1,641,873	15,928,022	6,363,186	8,043,785	1,521,052	15,928,022	0	--	
2011	5,197,244	6,652,195	11,849,439	1,720,268	0	1,748,595	15,318,301	6,363,186	8,043,785	911,331	15,318,301	0	--	
2012	3,273,679	6,452,190	9,725,869	1,794,755	0	1,862,254	13,382,878	6,363,186	8,043,785	0	14,406,971	1,024,093	--	
2013	3,169,424	5,942,185	9,111,609	1,872,468	0	1,983,300	12,967,377	6,363,186	8,043,785	0	14,406,971	1,439,594	--	
2014	3,054,591	5,757,680	8,812,271	1,953,546	0	2,112,215	12,878,032	6,363,186	8,043,785	0	14,406,971	1,528,939	--	
2015	2,939,759	5,573,175	8,512,934	2,038,135	0	2,249,509	12,800,577	6,363,186	8,043,785	0	14,406,971	1,606,393	--	
2016	2,828,929	5,388,670	8,217,599	2,126,386	0	2,395,727	12,739,712	6,363,186	8,043,785	0	14,406,971	1,667,259	--	
2017	2,464,150	5,204,165	7,668,315	2,218,458	0	2,551,449	12,438,222	6,363,186	8,043,785	0	14,406,971	1,968,748	--	
										Beginning Balance:	0			
										Additional Monies Banked to Capital Reserve Fund:	3,853,108			
										Capital Reserve Fund Monies Used:	3,853,108			
										Minimum Capital Reserve Fund Balance:	0			
										Capital Reserve Fund Monies Available:	0			
										State School Bond Monies Used:	0			

Notes:

➤ **Total Proposed Debt Service:**

<b>Principal</b>	<b>\$63,670,000</b>
<b>Interest</b>	<b>38,071,800</b>
<b>TOTAL</b>	<b>\$101,741,800</b>

(1) Estimated incremental tax impact has been rounded to a tenth of a penny.

## **STEP 8 – RUN THE CASES**

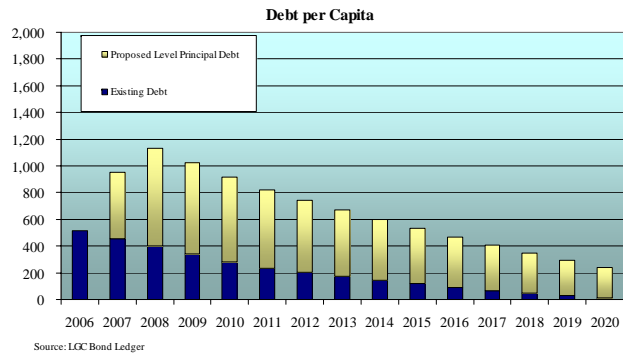
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- **Run a series of cases that compare various financing approaches and that measure these approaches against a common set of criteria:**
  - **Estimated tax impact**
  - **All-in debt service cost**
  - **Key Financial Ratios**
  
- **Consider the impact of manipulating various inputs:**
  - **Debt amount and timing**
  - **Loan repayment terms – duration and structure**
  - **Strategic use of reserves**
  - **Proactive revenue generating actions – “upfront tax impact”**

# SUMMARY OF CASES

<u>Case</u>	<u>Principal Structure</u>	<u>Tax Impact of Government Projects</u>	<u>Tax Impact of Phase I Schools</u>	<u>Tax Impact of Phase II &amp; III Schools</u>	<u>Tax Impact Projects</u>	<u>Timing of Impact</u>	<u>All-in Debt Service</u>	
➤ Case 1	A	Level	3.6¢	6.3¢	N/A	9.9¢	FY2008&2009	\$101,741,800
	B	Level	3.1¢	5.4¢	N/A	8.5¢	FY2008	\$101,741,800
➤ Case 2	A	Structured	3.1¢	5.3¢	N/A	8.4¢	FY2008&2009	\$109,961,925
	B	Structured	2.6¢	4.4¢	N/A	7.0¢	FY2008	\$109,961,925
➤ Case 3		Level	2.9¢	4.9¢	13.4¢	21.2¢	FY2008 to 2017	\$279,705,200
➤ Case 4		Structured	2.6¢	4.5¢	12.3¢	19.5¢	FY2008 to 2017	\$306,703,525

# DEBT RATIOS – EXISTING & PROPOSED DEBT



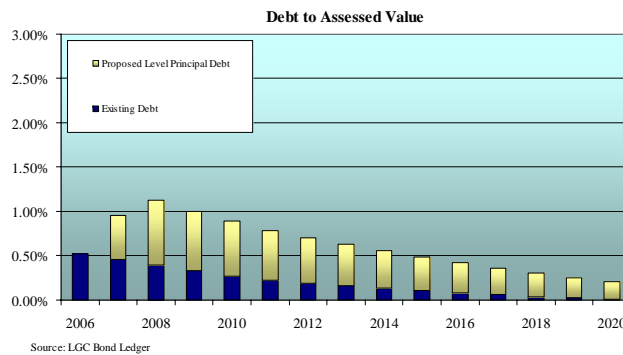
➤ North Carolina Benchmarks  
(50k – 100k)

High = \$1,566

Avg. = \$595

Low = \$79

➤ Population Growth = 1.27%



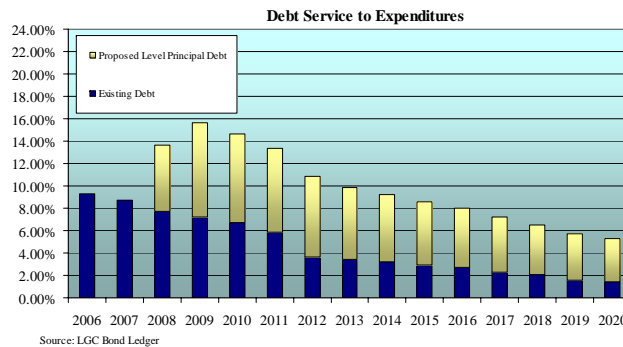
➤ North Carolina Benchmarks  
(50k – 100k)

High = 1.928%

Avg. = 0.852%

Low = 0.146%

➤ Assessed Value Growth = 2.50%



➤ Investment Grade Range

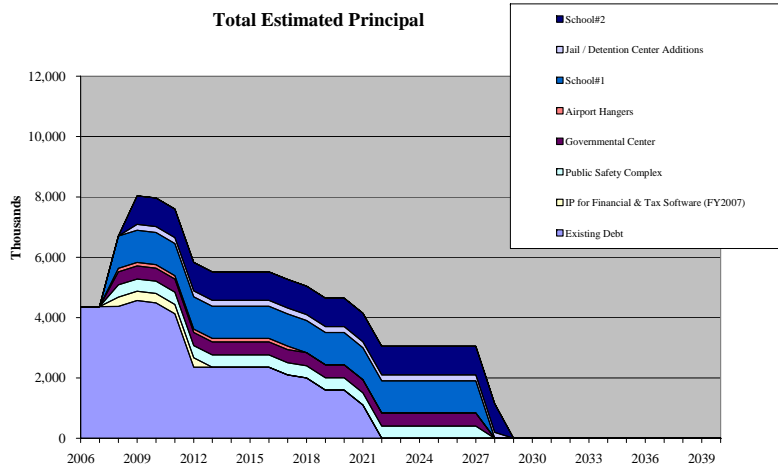
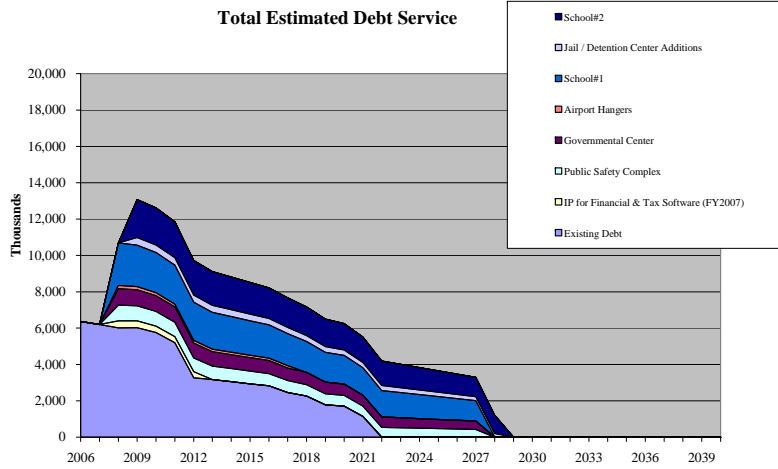
7.0% to 15.0%

➤ Expenditures Growth = 4.33%

# PAYOUT RATIO

## Total Estimated Debt

Prepared by Davenport & Company LLC



	Total Estimated Debt		
	Principal	Interest	Total
Total	110,103,797	51,829,637	161,933,433

	Principal	Interest	Total
2006	4,344,451	2,018,735	6,363,186
2007	4,365,269	1,835,347	6,200,616
2008	6,699,249	3,986,985	10,686,234
2009	8,038,387	5,037,203	13,075,591
2010	7,964,509	4,644,628	12,609,136
2011	7,598,302	4,251,137	11,849,439
2012	5,830,126	3,895,743	9,725,869
2013	5,520,126	3,591,483	9,111,609
2014	5,520,126	3,292,145	8,812,271
2015	5,520,126	2,992,808	8,512,934
2016	5,520,126	2,697,473	8,217,599
2017	5,264,500	2,403,815	7,668,315
2018	5,047,500	2,118,310	7,165,810
2019	4,647,500	1,855,255	6,502,755
2020	4,647,500	1,610,600	6,258,100
2021	4,147,500	1,365,945	5,513,445
2022	3,047,500	1,140,540	4,188,040
2023	3,047,500	961,885	4,009,385
2024	3,047,500	783,230	3,830,730
2025	3,047,500	604,575	3,652,075
2026	3,047,500	425,920	3,473,420
2027	3,047,500	247,265	3,294,765
2028	1,143,500	68,610	1,212,110
2029	0	0	0
2030	0	0	0
2031	0	0	0
2032	0	0	0
2033	0	0	0
2034	0	0	0
2035	0	0	0
2036	0	0	0
2037	0	0	0
2038	0	0	0
2039	0	0	0
2040	0	0	0

**10-Year Payout Ratio:**

Existing Debt	81.91%
IP for Financial & Tax Software (FY2007)	86.87%
Public Safety Complex	81.53%
Governmental Center	77.32%
Airport Hangers	77.72%
School#1	70.95%
Jail / Detention Center Additions	74.33%
School#2	70.15%

## **STEP 9 – EVALUATE OPTIONS & AFFORDABILITY**

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- **Determine the affordability of the projects as requested.**
- **Reprioritize projects.**
- **Adjust project timing.**

## **STEP 10 – DEVELOP FINANCIAL POLICY GUIDELINES**

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- **Establish a series of financial policy guidelines that are consistent with and supportive of your goals and objectives.**
  - **Capital Improvement Budget Policies**
  - **Debt Policies**
  - **Reserve Policies**
  - **Budget Development Policies**
  - **Cash Management and Investment Policies**