

# County of Durham



DURHAM'S VITALITY IS BUILT UPON  
THE HEALTH OF OUR RESIDENTS  
AND THE CAPACITY OF OUR COMMUNITY  
TO FOSTER AND ENHANCE  
THE WELLBEING OF EVERY CITIZEN

## 2017 Initial Capital Budget Overview

Presentation to County Commission in Work Session

February 1, 2016





# Discussion Materials Overview

- Discussion Elements
  - Current Capital Program Compared to Actual Financing Needs – Timing Differences When Comparing Plans to Execution
  - Evolving Nature of the County Capital Program and Investment in County Capital Assets
  - The Credit Rating Methodology and How the County Compares
  - Provide Selected Comparative Analysis to Other Governments
- Selected Comparative Analysis
  - Compare the County's Investment in Fixed Assets
  - Compare the County to Other N.C. Highly Rated Urban Counties On A Number Of Criteria
- Moody's New Credit Methodology
- County Credit Positives and Challenges
- Summary and Preliminary Debt Capacity



# Capital Plan Compared to Actual Financing Needs, Capital Plan Evolution and Investment in County Fixed Assets



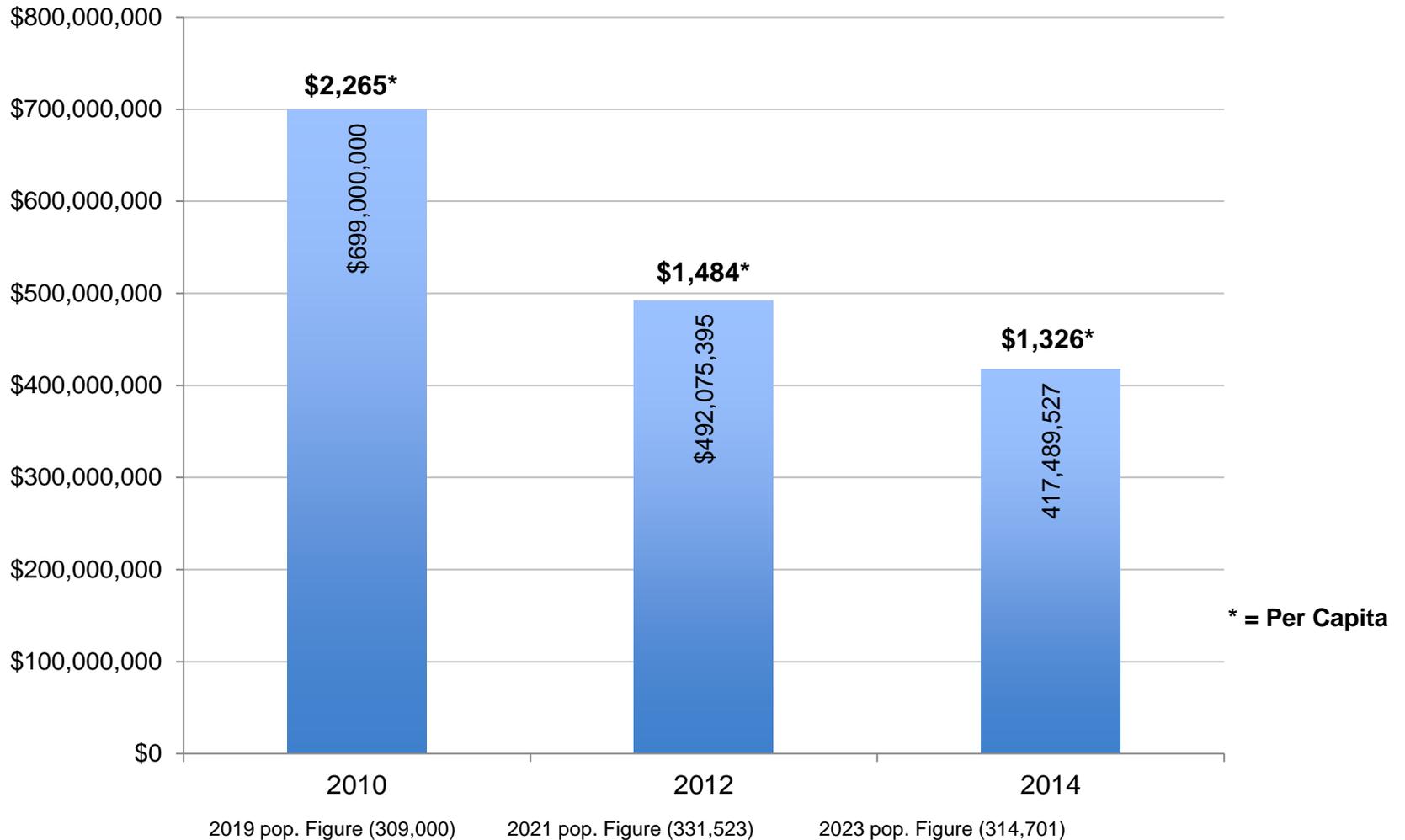
# CIP and Debt Issuance Background and Introduction

- Current Discussion is Phase One of a Process to Determine Size of the Next Ten Year Capital Program, Actual Debt Issuance Capacity and Affordability and Retaining Highest Credit Ratings (And Resulting Lowest Cost of Borrowing)
- County Ten Year CIP Amounts Have Changed Due to Economic Conditions, Project Need, County Debt Capacity, Timing, County Financial Policies and the Like (2010 \$699 million to 2014 \$417 million)
- Actual Capital Expenditures from Debt Issuance for the Last Ten Years (06-15) Have Totaled Approx. \$590 million, Substantial Investment in Capital Assets
- Current Resources Dedicated to Debt Repayment (Affordability), CIP Projects Projected by Cost and Timing (Affordability and Capacity), Actual Cash Flow Borrowing (Capacity and Rating).....All Combine to Produce Impact on Ratings
- New 2017 CIP Requests Likely Match or Exceed the 2010 \$699 Million Level
- Further Discussion Will Provide Initial View on Future Debt Levels Available to Retain Current Ratings



# Evolution Of The County Capital Program

- The Following Graph Illustrates the Trend in 10 Year Capital Programs:





# CIP Defines Need / Debt Issuance Defines Timing

## CIP Defines Need

- Long Term CIP Provides a “View” of Capital Needs Under Current “Conditions/Circumstances”
  - It is a Living Document
- CIP Contains Both Recurring Capital Needs and Long Term “Large Projects” With Long Useful Lives
  - Durham County Has Recently Completed Several of These
  - Hopefully Providing “Capacity” in Future CIPs
- CIP Needs Change Due to a Number of Factors:
  - Changes in Economic Conditions
  - Growth in Population/Enrollment/Other Similar Growth Drivers
  - Technology and Other Providers of Efficiency in Use of Capital Facilities
  - Policy Change
  - Prioritization of Capital Need
  - Resources Available to Fund Construction
  - And More



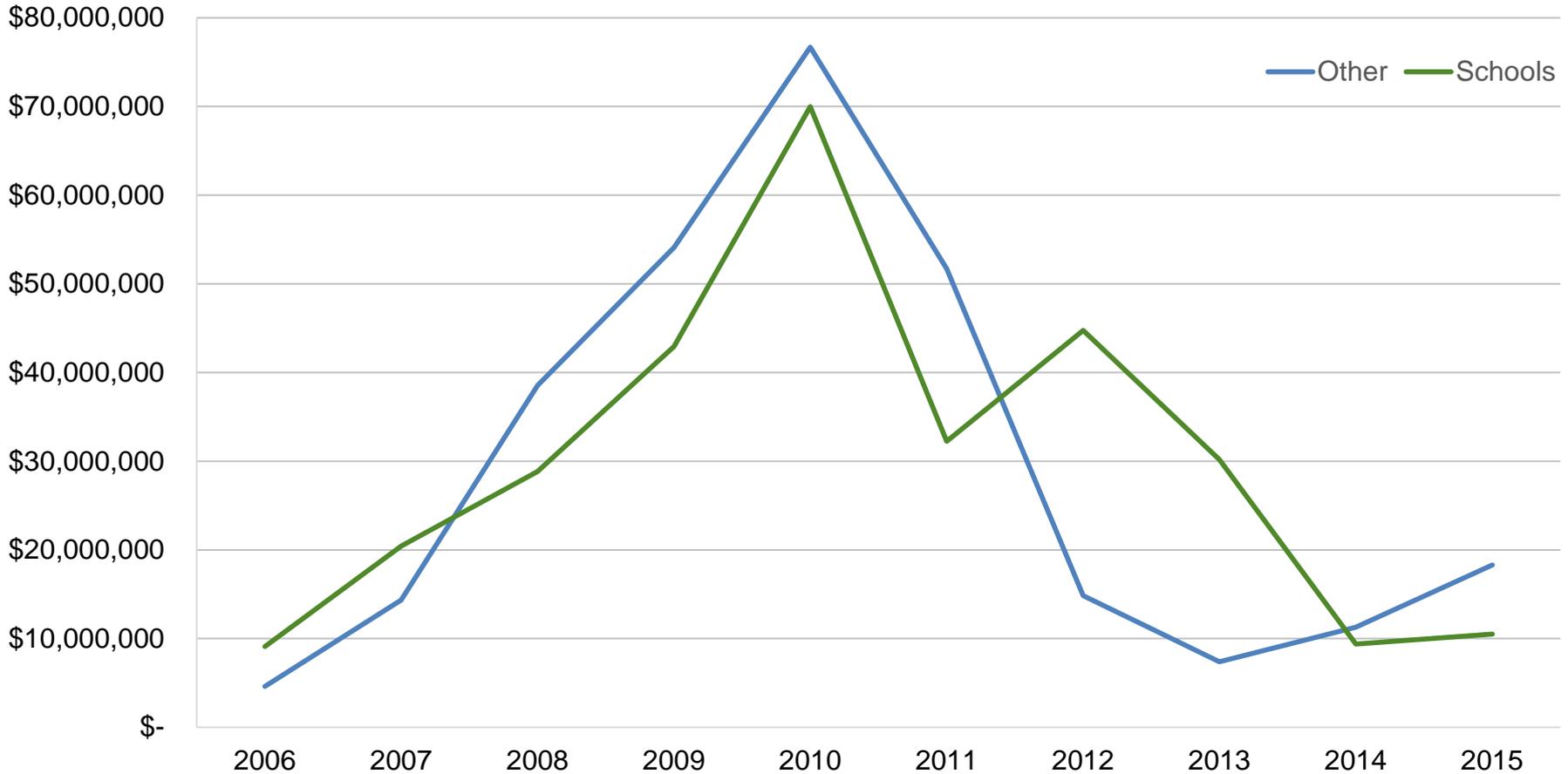
# CIP Defines Need / Debt Issuance Defines Timing

## Debt Issuance Defines Timing

- Definition of Specific Project Need/Affordability Occur at Different Time Periods Than Those Often Viewed by the CIP.....In Other Words Plans are Just That.....Actual Construction of Capital Projects Occur After a Process of More Fully Defining Need and Scope, Together with Cost and Affordability
- County Finance Has Developed a Comprehensive Means to Issue Debt Based Upon Cash Flow Needs of Project Contracting and Expenditures:
  - A Model to Others
  - Virtually Assuring That Financed Projects Timing Will Not Match CIP View of Timing
  - This is a Positive for the County and Has Produced Positive Impact on Cost and Timing of Debt Service
- Attached History of Debt Funded Capital Expenditures Demonstrates the Significant Movement of Actual Expenditure of Capital and the Impact of Recent Large Projects



# Debt Funded Capital Expenditure Ten Year History



### 10 Year Totals

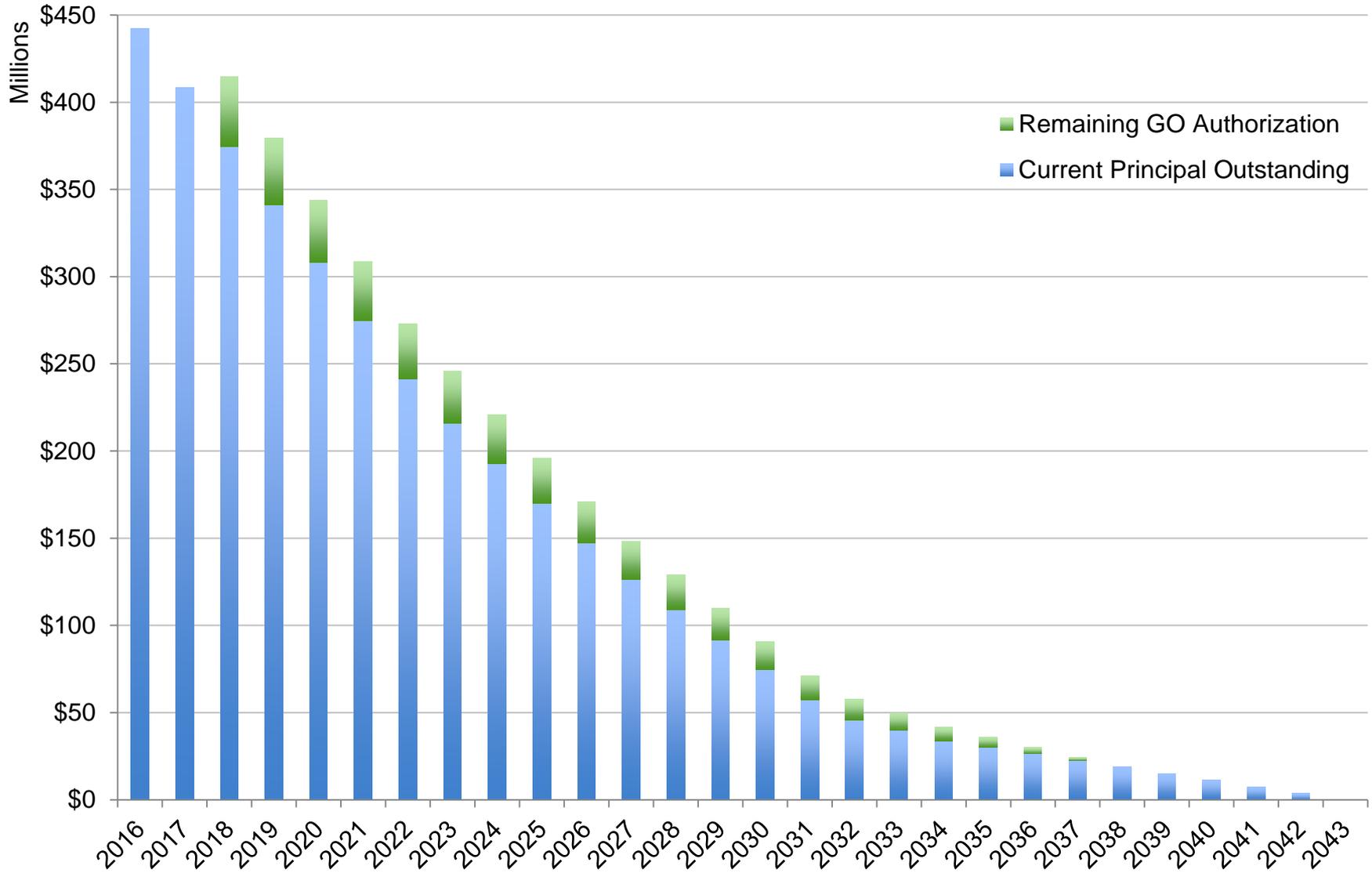
Schools	\$298,411,881
Other	\$291,800,863
<b>Total:</b>	<b>\$590,212,744</b>

### GO Referendums

2007	\$207,100,000 (\$39.9M Remains)
2003	\$123,665,000
2001	\$74,660,000
1991	\$131,890,000



# Long Term Bonded Debt (Principal)



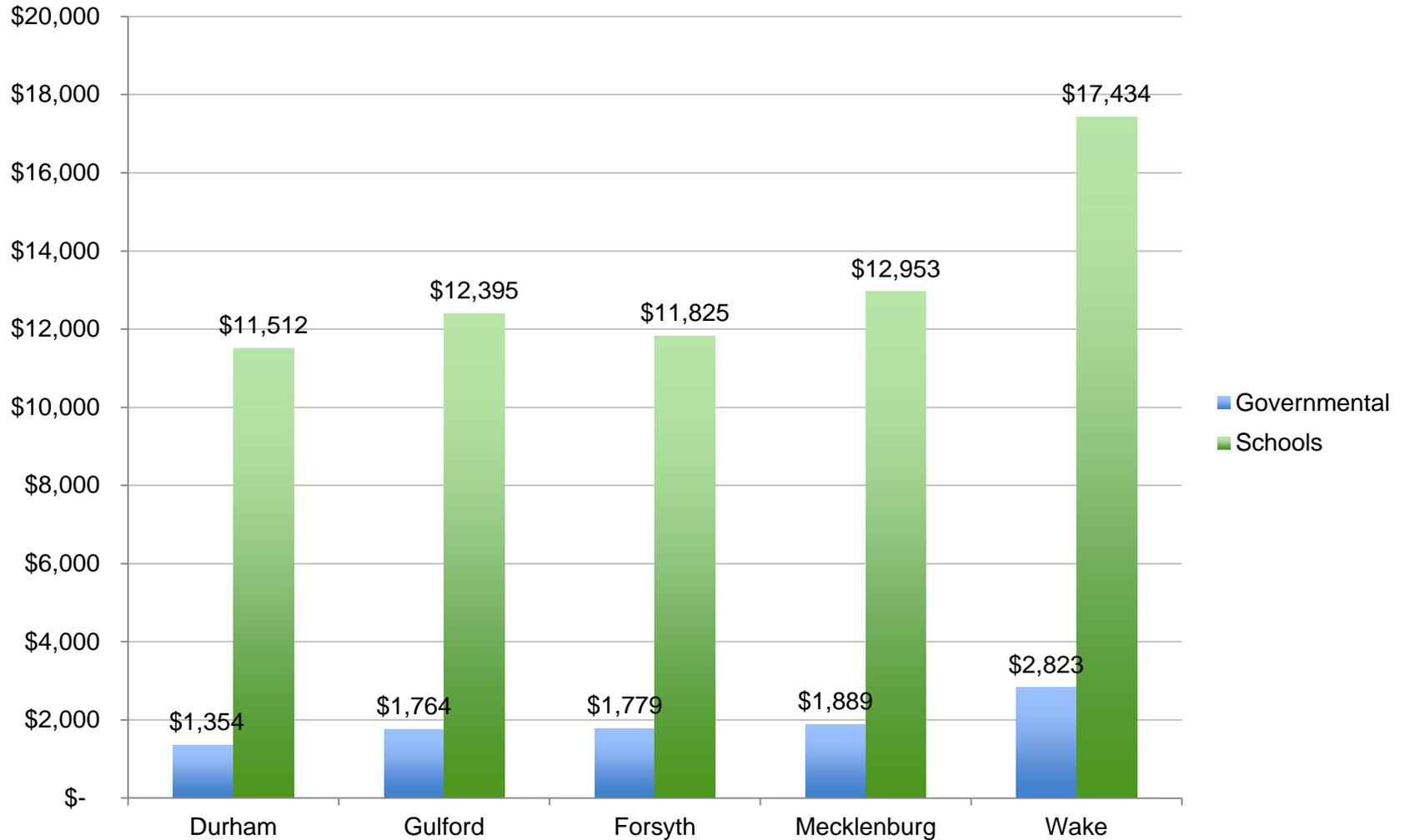


# Selected N. C. County Comparative Analysis



# Investment In County Fixed Assets – A Comparison

- Based Upon Audited FY 2015 Results the Following Table Illustrates the Fixed Asset Investment Per Capita in General Govt. and Per ADM for Schools



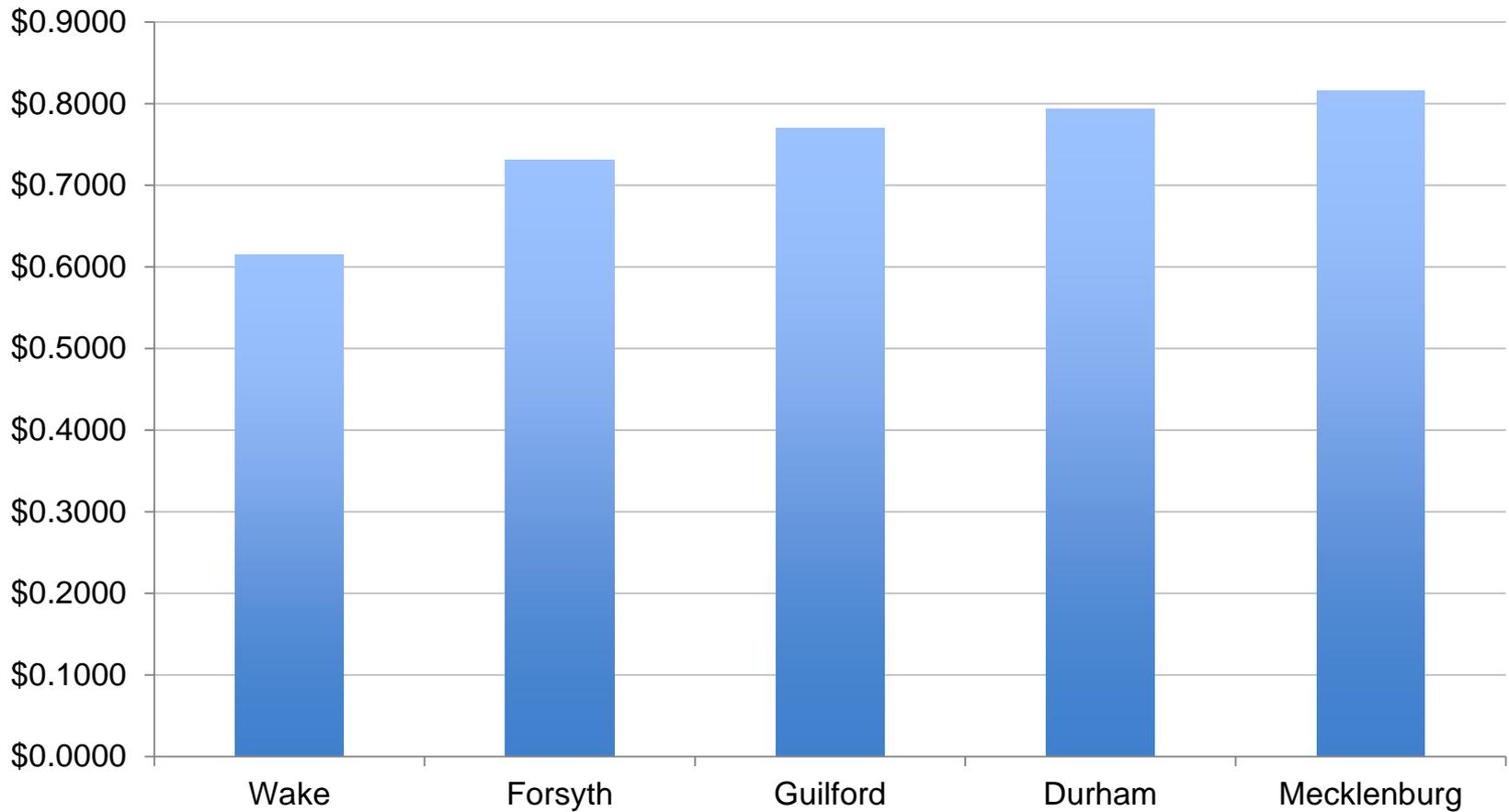
Source: 2015 CAFRs



# Current Property Tax Rates

Wake	Forsyth	Durham	Guilford	Mecklenburg
61.45¢	73.10¢	79.31¢	77.00¢	81.57¢

Source: 2016 County Adopted Budgets

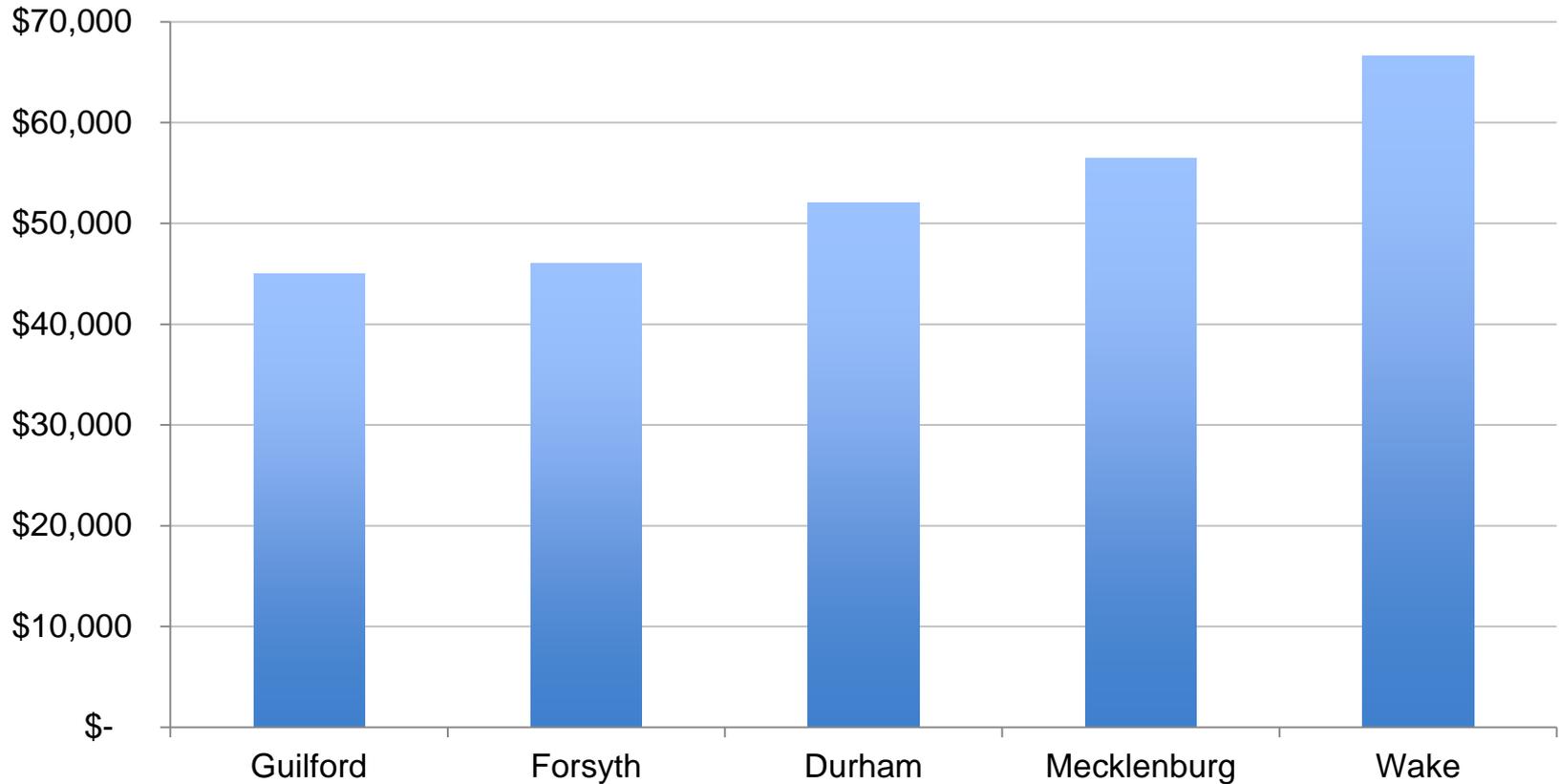




# Current Median Household Income

Forsyth	Guilford	Durham	Mecklenburg	Wake
\$46,003	\$45,050	\$52,038	\$56,472	\$66,579
86% of US Median	84% of US Median	97% of US Median	105% of US Median	124% of US Median

Source: 2014 Estimate from US Census Bureau





# Moody's New Methodology and County Results



# Moody's New Methodology

General Obligation	Weight	Aaa	Aa	A
<b>ECONOMY/TAX BASE</b>		<b>30%</b>		
Tax Base Size (full value)	10%	> \$12B	\$12B ≥ n > \$1.4B	\$1.4B ≥ n > \$240M
Full Value Per Capita	10%	> \$150,000	\$150,000 ≥ n > \$65,000	\$65,000 ≥ n > \$35,000
Wealth (median family income)	10%	> 150% of US median	150% to 90% of US median	90% to 75% of US median
<b>FINANCES</b>		<b>30%</b>		
Fund Balance (% of revenues)	10%	> 30%	30% ≥ n > 15%	15% ≥ n > 5%
Fund Balance Trend (5-year change)	5%	> 25%	25% ≥ n > 10%	10% ≥ n > 0%
Cash Balance (% of revenues)	10%	> 25%	25% ≥ n > 10%	10% ≥ n > 5%
Cash Balance Trend (5-year change)	5%	> 25%	25% ≥ n > 10%	10% ≥ n > 0%



# Moody's New Methodology

General Obligation	Weight	Aaa	Aa	A
<b>MANAGEMENT</b>	<b>20%</b>			
Institutional Framework	10%	Very strong legal ability to match resources with spending	Strong legal ability to match resources with spending	Moderate legal ability to match resources with spending
Operating History (5-year average of operating revenues / operating expenditures)	10%	> 1.05x	$1.05x \geq n > 1.02x$	$1.02x \geq n > 0.98x$
<b>DEBT/PENSIONS</b>	<b>20%</b>			
Debt to Full Value	5%	< 0.75%	$0.75\% \leq n < 1.75\%$	$1.75\% \leq n < 4.00\%$
Debt to Revenue	5%	< 0.33x	$0.33x \leq n < 0.67x$	$0.67x \leq n < 3.00x$
Moody's-adjusted Net Pension Liability (3-year average) to Full Value	5%	< 0.90%	$0.90\% \leq n < 2.10\%$	$2.10\% \leq n < 4.80\%$
Moody's-adjusted Net Pension Liability (3-year average) to Revenue	5%	< 0.40x	$0.40x \leq n < 0.80x$	$0.80x \leq n < 3.60x$



# Moody's Debt Ratios Comparative

	Durham	Forsyth	Guilford	Mecklenburg	Wake
Audit Year	2014	2015	2014	2014	2014
Net Direct Debt (\$000)	\$527,912	\$522,156	\$717,872	\$1,621,006	\$1,943,761
Full Value (\$000)	\$32,025,004	\$32,199,113	\$46,297,929	\$112,934,112	\$127,084,600
Operating Revenues (\$000)	\$402,975	\$379,721	\$553,142	\$1,408,459	\$1,021,611
Net Direct Debt / Full Value	1.65%	1.62%	1.55%	1.44%	1.53%
Net Direct Debt / Operating Revenues	1.31	1.38	1.30	1.15	1.90

Source: Moody's Internal Data



# County Credit Positives and Challenges



# County Credit Positives

- Diverse, Growing and Stable Economy – Growth is Back
- Management of County Has Demonstrated Ability to Perform in Both High Growth and Lower Growth Environments.
- County Financial Management Has Created Strong Finances
  - Consistent With High Credit Ratings
  - Adoption of Financial Policies Has Placed County in Distinguished Group of Strong Planners and Those Who Achieve Plans.
- Capital Plans Have Been Comprehensive and Changed in View of Various Realities and County Debt Policies.
- Debt Management Has Been Prudent For a “Growth” County With Future Capacity Created Based Upon Reasonable Debt Management Policies and Structures of Debt
- Use of a Debt Issuance Model Has Defined Future Cost of Debt and Impact on Revenues



# County Credit Challenges

- Population Growth and Demand for Services Creates Expanding Capital Needs and Cost for Operations – Necessitating Need for Balance.
- Managing Capital and Operating Cost Within Constraints of Revenue Growth and Other Ability to Pay Measures.
- Improving Revenue Source Diversity, Potential for Changes at State Level.
- Holding Capital Budgets and Issuance of Debt at Reasonable Levels Consistent With High Credit Measures.
  - Prioritizing Capital Projects Within Defined Capital Resource Constraints.
  - Increasing County Contribution Resources to the Capital Plan.
- Managing Strong Overall Finances and Meeting County Financial and Debt Policies.
  - Growth in Operating and Capital Needs Will Place Pressure on Managing to Current Policy.
  - Retention of Significant Fund Balances and Financial Management Flexibility is Key.



# Summary



# Summary

- The County Economy Is Strong And Long-Term Economic Growth Trends Are Excellent
- Financial Management Is Sound And Compares Well To Highly Rated Credits
- Current Capital Program Is Comprehensively Being Developed for the Next Ten Years
- Future Debt Issuance To Implement The Capital Program Must Be Monitored And Altered By Size And Timing, As Needed, If Highest Credit Rating(s) Is The Goal
  - For the Upcoming Five Year Period \$200 to \$250 Million in New Issuance is Prudent
  - Additional Significant New Debt Capacity Potentially Available After 2022 Due to Debt Retirement
- Establishment of a Dedicated Capital/Debt Service Fund With Separate Dedicated Revenues Should be Considered/Implemented
  - Means to Manage Future Capital and Debt Service Needs and Capacity into the Future
  - Strong Credit Positive to Set Aside Capital Resources from Operating Resources
  - Current Counties and Cities Using This Method