Debt Financing

Bond Authorization and Issue Process

Public Policy Workshop

January 8, 2019

Agenda: Bond Process

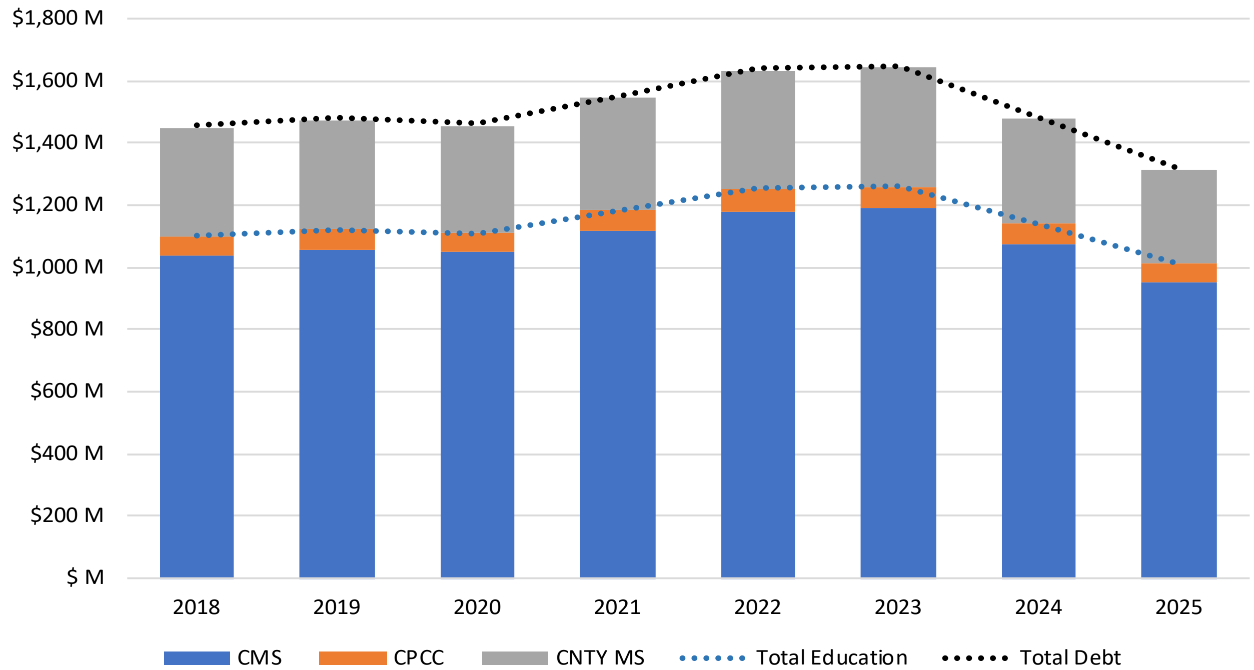
- Overview: Debt Financing
  - County Debt Portfolio
  - Credit Rating
  - Debt Policy
- Issuing New Debt
  - Bond Referendum
  - Bond Sale
  - Credit Rating Agency Process
- Questions

County Debt Portfolio

The County has worked to lower total outstanding debt from $2.2 billion, to more sustainable levels in the last 10 years.

Outstanding Debt Balance, dollars in millions

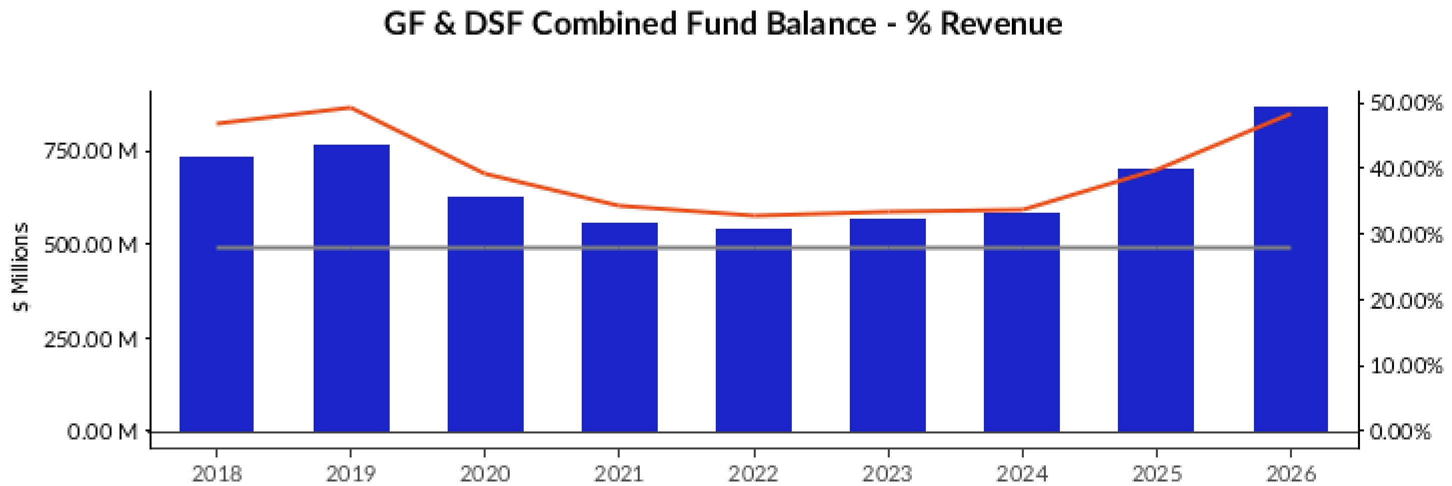
Debt Balance Forecast



	2018	2019	2020	2021	2022	2023	2024	2025
Total Education	1,102 M	1,121 M	1,111 M	1,183 M	1,254 M	1,262 M	1,139 M	1,013 M
Total Debt	1,458 M	1,479 M	1,462 M	1,551 M	1,638 M	1,645 M	1,483 M	1,316 M

Total projected debt under the current CIP and bond authorizations is anticipated to grow to $1.7 billion, with the combined General Fund and Debt Service Fund balance as a percent of revenue coming closer to the 28% threshold in 2022.

Fund Balance % of Revenue



	2018	2019	2020	2021	2022	2023	2024	2025	2026
Fund Balance	729.61 M	766.14 M	623.10 M	554.90 M	540.92 M	566.29 M	580.87 M	698.74 M	867.92 M
Balance %	46.90%	49.42%	39.17%	34.20%	32.69%	33.56%	33.75%	39.80%	48.47%
Target %	28.00%	28.00%	28.00%	28.00%	28.00%	28.00%	28.00%	28.00%	28.00%

Credit Rating

- The three major credit rating agencies have all affirmed the County's AAA credit rating, which helps keep interest costs low in a rising interest rate environment, and is a significant County achievement
- Robust financial and debt management, long-term planning, sound fiscal policies, and healthy reserves are fundamental to the AAA credit rating
  - "The Aaa rating reflects the county's sizeable expanding and diversifying tax base with strong population growth and a manageable, albeit somewhat above average debt burden. The rating also incorporates the county's healthy reserve position benefitting from various prudent fiscal policies and multi-year planning" – Moody's 2018
  - "Very strong budgetary flexibility, with an available fund balance in 2017 at 36% of operating expenditures" – Standard & Poors Ratings 2018
  - "The AAA…is supported by a strong economic base and considerable control over revenues and spending, which underpin the county's strong financial results. The county's long-term liability burden is low, reflecting healthy funding of retiree benefit liabilities and conservative debt management policies." – Fitch 2018

Debt Policy Best Practices

GFOA Best Practices		
Debt Limits	Purpose for which debt may be issued	Restrictions on Use
		Sources of Repayment
		Useful Life, Matching Asset Life
		Pay Go, Integration w/ Capital Plan
	Legal Debt Limits, Local Limits	Legal/Statutory Limits/Local
		Fiscal Condition, Ratios
		Debt Service Capacity
	Type of Debt Permitted	Short and Long Term
		Fixed and Variable
		Other Financing
Debt Structuring	Structural Features	Call Features
		Maturity
		Credit Enhancement
		Derivative Products
Debt Issuance	Credit objectives	Ratings
		Relationships with Credit Raters
	Method of sale	Competitive vs. Negotiated
		Direct Loans
		Private Placements
		Premium Structures
	Selection of external financial professional	Request for Proposals (RFP)
		Contract Evaluation and Terms
	Refunding of debt	Reason for Refunding
Debt Management	Disclosure (primary and secondary market)	15c2-12 Requirements
		Initial and Continuing
		Investor Relations
		Obligated Person to Communicate
	Investment of Bond Proceeds	Compliance with Federal Tax Law
		Arbitrage Requirements
		Investment of Proceeds

- County debt policy is comprehensive
- Captures all Government Finance Officer Association best practices
- Reflects input from the North Carolina State Treasurer's Local Government Commission

Debt Policy

- Debt shall not be used for ongoing operational expenses
- Debt maturity shall not extend beyond the useful life of the asset being financed
- County shall establish an affordable debt level; use appropriate debt instruments and manage debt position to lower costs and minimize risks
- County shall seek and maintain the highest credit rating possible
- County will maintain a Debt Service Fund, and utilize pay-as-you-go (“Pay Go”) and other sources to minimize debt levels

Debt Metrics

- County's performance is strong relative to similar counties in North Carolina and the east coast
- Higher debt levels due to school funding model in NC offset by healthy reserves

Debt Ratio	FY 2018	Policy Metric
Overall Debt as % of Assessed Value	1.7%	4.0%
Overall Debt per Capita	$1,975	$4,000
Direct Debt as % of Assessed Value	1.15%	1.75%
Direct Debt per Capita	$1,327	$2,000
Ten Year Payout ratio	72.8%	64.0%
Debt Service % of Operational Expenditures	14.4%	17.0%
Variable Rate Debt as % of Outstanding Debt	0.0%	15.0%

Issuing New Debt

- Debt issues begin with the long-range financial and strategic planning
  - Five year Capital Improvement Plan
    - Long-range strategic plan for acquiring, constructing, or renovating capital assets
    - Includes projects, locations, and anticipated financing
  - Long-range model
    - Projected revenues and expenses over the long run
    - What's affordable under different scenarios
  - Annual Capital Ordinances
    - Establishes financing plan for each fiscal year
- County seeks to finance capital assets in a manner that avoids overreliance on debt and minimizes costs

Debt Issue Requirements

- Local Government Bond Act—NC Statute that governs long-term financing for local governments
- Establishes the procedures, eligible purposes, and limitations on local government debt issues
  - Voter authorization for new General Obligation Bonds
    - Part of regular annual election ballot in November
    - Typically in year prior to 5-year CIP initiation
  - Net debt limit (8% of property tax assessed value)
  - NC Treasurer's Office Local Government Commission approval of bond issues

Forms of Debt Issue

- Few basic forms of borrowing to support capital spending, differ primarily in the form of security provided
  - General Obligation Bonds (GO Bonds)—full faith and credit
  - Limited Obligation Bonds (LOBs)—backed by the revenue generated by a project
  - Installment Purchases—pledge the asset being purchased
- Other GO Bond Authority
  - Two-thirds bonds—to the extent the County has reduced principal outstanding, may issue up to two-thirds that amount, reduced for any new GO bonds issued

GO Bond Order

- GO Bond Orders
  - Authorize the issuance of GO bonds
    - States the purpose for which proceeds will be spent
    - Sets a maximum amount
  - Describes the Security for bonds
  - Publicizes the bond issue
    - Sworn statement of debt has been filed
    - Declares circumstances under which bond order will have effect
    - Multi-year authorizations aligned to capital plan—actual use of bond authority determined year by year
- Last GO Bond order for Mecklenburg County
  - Referendum approved November 2017 ($922 million for schools)

Bond Referendums

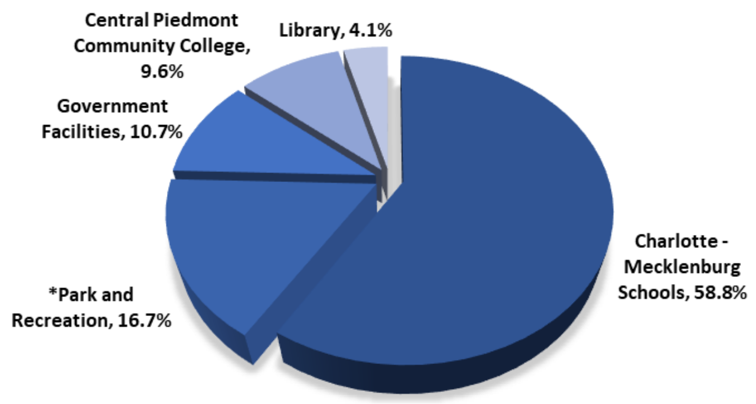
- The County selects appropriate categories based on size of capital need and likely voter support
- The remaining categories funded through "Pay Go" funding or transfer from the Debt Service Fund
- Historical examples include:
  - 2017 Bond Referendum
    - $922 million for CMS projects, 73% Voter approval rate
  - 2013 Bond Referendums:
    - $290 million for CMS Projects, 74% Voter approval rate
    - $210 million for CPCC investments, 72% Voter approval rate

Capital Improvement Plan

FY2019-FY2023 CIP Plan

Total Project Allocated by Purpose	Total CIP Appropriation	% of Total	Project Count
Charlotte - Mecklenburg Schools	$922,084,548	58.8%	29
*Park and Recreation	261,016,827	16.7%	28
Government Facilities	167,956,521	10.7%	13
Central Piedmont Community College	151,116,542	9.6%	3
Library	65,000,000	4.1%	1
Total	$1,567,174,438	100%	74

Total Allocation by Purpose



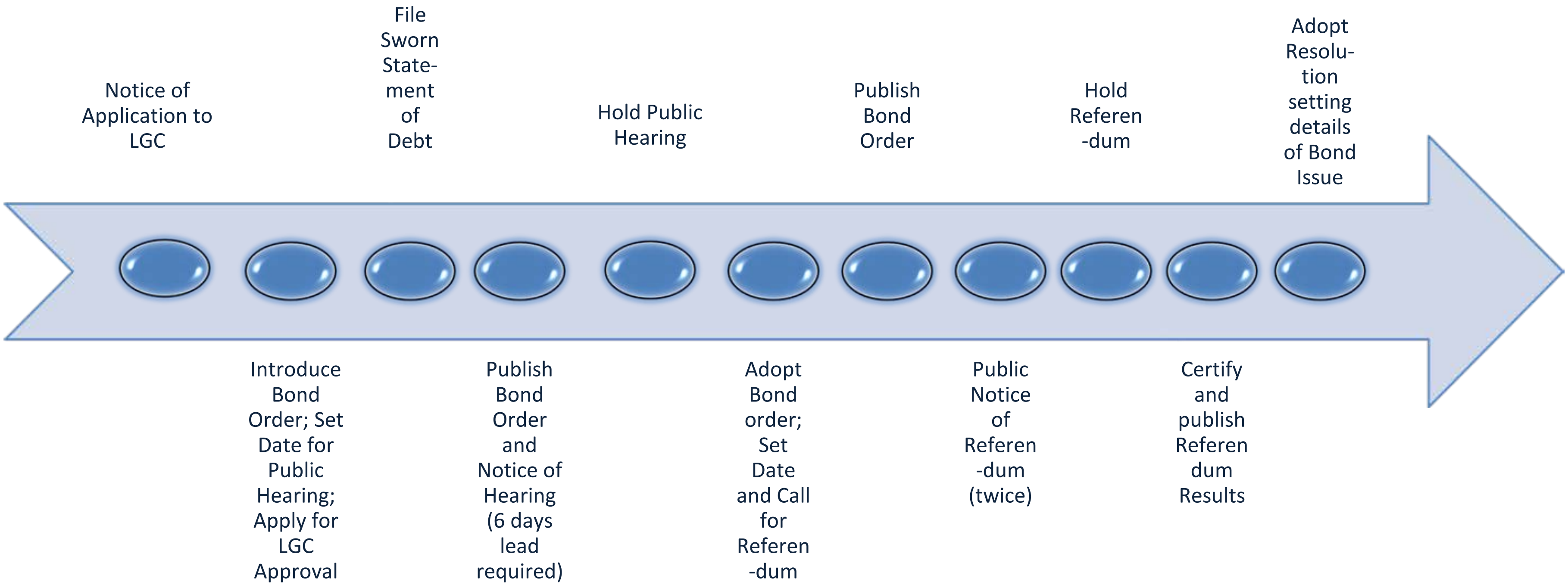
*Park total includes funding for all FY2008 bond capital projects

Existing Bond Authority

	Authorized	After 2018 Issuance Unissued
2017 Referendum - School Facilities	$ 922M	$ 855M
2013 Referendum - Community College	$ 210M	$ 60M
Total	**$ 1,132M**	**$ 915M**

GO Bond Timeline

Bond Authorization process to establish bond order typically takes six months—in addition to the long-term planning process to identify the detailed capital plan needed for LGC approval.



Bond Issue Process

- Once Referendum(s) established, annual process to issue debt
- Typically takes three to four months
- Given project cash flows, Pay Go Capital funding, other sources—County determines how much debt to issue
- Most Recent—September 2018 (FY 2019):
  - First year of 5-year CIP
  - $150 Million issue, $125 million for CMS; $25 million for parks
- Next Debt Issue FY 2020:
  - Anticipated bond sale ($150-$200 million)

Annual Debt Issue Process

- Evaluate Debt issue needs for upcoming fiscal year
  - Identify debt needs aligned with purpose/referendum
- Work with Financial Advisor to develop timeline
- Local Government Commission (LGC) Approval and coordination
- Develop of the Preliminary Offer of Sale (POS) with LGC and Bond Counsel
- Secure Credit Rating Agency review/rating on the issue and outstanding debt

Typical Debt Issue Calendar

Following Certification of Election and determination of project readiness:	
Weeks 1-4	Develop Preliminary Official Statement & Rating Agency presentations
Week 5	Provide information to rating agencies
Week 6	Rating Agency presentations
Week 8	Receive Bond Ratings, Post Preliminary Official Statement & Notice of Sale
Week 10	Receive Bids and award bid to the lowest bidder
Week 12	Close bonds and receive funds for projects.

Notional draft for what a typical GO Bond debt issue timeline would look like. Actual timelines vary by debt issue.

Credit Rating Agencies

- Credit Rating Agencies review
  - Financials (Budget performance & fund balance)
  - Economic analyses
  - County policies and procedures
- Issue rating on outstanding debt and new debt issue
  - Review all information from POS, CAFR, other information
  - Utilize methodology that looks to
    - Financial information
    - Management information
    - Historical performance
    - Other points of reference
- AAA Credit Rating affirmed in 2018; cost of losing AAA both financial and reputational

Questions?