2018 Update of the Long-Term Financial Planning Process and Debt Affordability Model

Presented to County Commission on November 27, 2018

Contents

General Introduction

- County began long-term financial and capital planning in 2005 in view of significant capital and operating needs
- Retention of the long-term financial plan and debt affordability essential to continuing strong management
  - Driving force of the County's enviable financial results
  - Essential to maintaining the highest level of future financial performance
- DEC Associates advisor since 2005
  - Current financial update one of many in the past
  - Both to the County Commissioners and the public

General Introduction

- County is highly rated and continues to manage on a prudent financial basis based upon rating agency assessment
  - Current ratings of Aa1 from Moody's and AAA from Standard & Poor's
    - Standard & Poor's upgrade on October 14, 2014 to AAA
    - Moody's upgrade on October 17, 2014 to Aa1
  - Ratings were confirmed as Stable by both agencies as part of the July 2018 LOBs Issuance
  - County is a classic "Management" rating
- Following presentation will look to the future plan
  - Ability to maintain strong financial performance
  - Resulting high credit ratings

Review of Long-Term Financial Planning

- Importance of Financial Planning
  - Provides a road map
  - Sets policies and achievement objectives
  - Measures achievement
  - Provides for annual review and can change as needed
  - Provides for greater financial alternatives
  - Provides tool to match needs with County priorities
  - Sets the stage for improving financial standing and resulting credit ratings

Review of Long-Term Financial Planning

- Building a Debt/Capital Capacity Analysis
  - What is it anyway?
    - A blending of available resources/revenues
    - A definition of needed capital facilities and prioritization
    - A snapshot of potential debt structures
    - A statistical analysis to define capacity to meet the capital needs
  - What does it include?
    - Assumptions on growth, cost, timing, etc.
    - Analysis of various funding scenarios and structures
    - “What if” analysis

Review of Long-Term Financial Planning

- Debt Affordability Model Development
  - Identifying and continually update current resources
    - Multiple resources used to for capital/debt
    - Ad Valorem, lottery funds, miscellaneous revenue, etc
  - Current debt service and other costs are layered to give a picture of resources needed until all current debt is paid off
  - New contemplated capital projects are added to identify when/if/how resources need to be adjusted to meet new additional debt service
  - From there, strategies can be analyzed to temper spikes in additional resources needed for new capital projects
    - Dedicated capital fund; change timing of projects; change scope or size of projects

Review of Long-Term Financial Planning

- Current Outstanding Financings since 2006

When	Project	Amount
July 2009	Private Placement – Library & Siler City CC	$17,050,000
July 2010	QSCBs - Schools	$4,396,129
April 2012	LOBs (Refunding) – Northwood High	$6,725,000
January 2013	LOBs – Jail Facility	$15,495,000
April 2013	USDA RDL – Judicial Facility	$21,940,000
November 2014	LOBs – Agricultural Center & Joint Bus Garage	$19,175,000
November 2014	LOBs (Refunding) – Schools	$26,270,000
July 2015	LOBs (Refunding) – Schools	$21,655,000
July 2018	LOBs – Multiple Projects	$117,730,000

Review of Long-Term Financial Planning

- Issuances since 2006 that have been Refunded:

Project	Refunded by
2006 COPs – Schools, Business Park, DSS	2014 & 2015 LOBs
2008 Private Placement – Northwood High	2012 LOBs
2009 Private Placement – Briar Chapel	2015 LOBs

Review of Long-Term Financial Planning

- In 2005 the County had the following metrics:
  - Outstanding Long-Term Debt $21,002,000 - $363 per capita
  - Debt Funded CIP of Approximately $133,000,000
  - Per Capita Appraised Value of $87,277
  - Ratings - Moody's: A1 S&P: AA-
- Current Metrics
  - Outstanding Long-Term Debt $210,000,000 – $2,905 per capita
  - Debt Funded CIP of Approximately $163,000,000
  - Per Capita Appraised Value of $142,180
  - Ratings - Moody's: Aa1 S&P: AAA
- Considerable change, coupled with future needs

Rating Impacts

- Credit Rating Considerations – Current Plan Needs and Rating Metrics
  - County management and elected board "buy in" to the Capital Plan/Debt Affordability
    - Continue to follow the model and keep contributing as necessary
  - Wealth levels and other financial metrics
    - Moody's General Government Criteria
      - Economy/Tax Base 30%
      - Finances (Liquidity) 30%
      - Management 20%
      - Debt/Pensions 20%

Rating Impacts

- Credit Rating Considerations – Current Plan Gives Some “Pause”
  - Soundness of the financial plan
    - Needs are present and the County has properly/prudently timed its debt issuance to date
    - Equally important to do so in the future
  - Does the Capital Plan meet projected County needs?
    - Especially for growth counties like Chatham
  - Current plan is “large” and creates significant increase to per capita debt and need to dedicate more resources
    - Strong growth in the County will aid in producing new resources
    - Timing is critical with potential need to evaluate lengthening the current timing

Discussion of Current Financial Model

- Future Projects to be Issued (current cost estimates)

When	Project	Amount
FY 2020	School Central Office/Radio Replacement/EOC	$32,780,000
FY 2025	Elementary School	$50,000,000
FY 2028	Government Annex Complex	$80,000,000
	Total:	$162,780,000

Summary of Current Financial Model

- Current model 56f is achievable with conservative assumptions, timing, and sizing of projects – Need for additional revenues
- Per capita debt $3,197 after issuance of all planned debt in FY2028
- Issuance of additional debt above current plan level and/or earlier issuance
  - Must be reviewed and planned prudently
  - Measured by increased debt levels and revenue needs
  - Measured by potential for rating impacts and LGC scrutiny

Closing Comments/Questions

- Questions?