

2016–2021 MAJOR CAPITAL IMPROVEMENTS PROGRAM - FUTURE PROJECTS

FORSYTH COUNTY, NORTH CAROLINA

Introduction

The Forsyth County Major Capital Improvements Program (CIP) represents a multiyear forecast of the County's capital needs. The CIP not only identifies capital projects but also the financing required for the projects and their impact on the operating budget. The County prepares a five-year CIP to function as a planning tool for capital improvements. The schedule of projects beyond the first year is subject to adjustments upon annual review by County staff and the Board of Commissioners. Future forecasts in the CIP serve the County by helping plan for capital repairs, replacements, and acquisitions which aids in financial planning to ensure the County's fiscal health and credit. Capital projects differ from annual operating expenses because they involve large dollar amounts, often require special financing, typically occur at irregular intervals, and involve the development of assets expected to last more than five years.

The County's CIP serves as a guide for the maintenance and acquisition of capital assets. It is an important management tool as it evaluates the effects of large capital costs on the County's operating budget and financial standing in terms of debt burden and capacity. The CIP is the result of an ongoing process by County officials to assess the need for major capital expenditures, to determine the feasibility of funding these projects and to establish an orderly plan for financing and implementing these projects to remain in compliance with Commissioner established financial policies. The entire CIP is not an adopted budget. Only the first year of the CIP (FY2015-2016) will become a part of the County's annual budget document if approved. Additionally, the CIP is not a static planning tool as it is evaluated annually and adjusted according to the County's goals and financial considerations.

Policies and Financial Strategies

The CIP helps the County manage capital expenditures to meet the following goals:

1. Eliminate hazards and risks to public health and safety
2. Promote economic development
3. Improve service effectiveness and efficiency
4. Maintain financial stability.

To achieve these goals, the following policies and financial strategies guide County staff in CIP development:

1. A capital project is a physical asset with an initial cost greater than \$100,000 and a projected useful life greater than five-years or a non-recurring operating expenditure greater than \$50,000 directly related to service delivery. Capital assets may include infrastructure, buildings, vehicles, or information technology equipment and software. Planning and design costs associated with the request should be included in the projected costs when applicable.
2. Similar projects costing less than \$100,000 should not be lumped together to form a single project greater than \$100,000. Such smaller projects should be requested and/or included in the upcoming budget.
3. The term of any County debt issue should not exceed the useful life of the asset for which the debt is issued.
4. The capital program recognizes the borrowing limitation of the County to maintain fiscal stability including a AAA rating from rating agencies.
5. Requesting departments will search for all possible outside funding sources for CIP projects to offset County debt, including grants, private-partnerships, and intergovernmental agreements.
6. A financial analysis will accompany the CIP to illustrate the County's capacity to repay debt and identify the impact on financial indicators.
7. The County will attempt to use pay-as-you-go financing assets with costs less than \$150,000.

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The following is a list of financing options available to the County for consideration when funding the Forsyth County CIP. Included are the assumptions used in deciding on which funding option to use for a project.

- **Long-term Financing** - includes General Obligation Bonds, 2/3rds Bonds, Limited Obligation Bonds (LOBS)
 - *General Obligation Bonds* - used for projects when voter approval is sought.
 - This type of financing is generally used to fund projects for the public school system or community college;
 - G.O. bonds require voter approval because the debt is secured by the taxing power of the County; and
 - Typically have the lowest interest rates and twenty-year terms.
 - *2/3rds Bonds* - a type of general obligation bond
 - Does not require voter approval; but
 - Can only be used when debt is reduced (principal only) from one year to the next.
 - *Limited Obligation Bonds (LOBS)* - used for essential projects where the project itself secures the financing.
 - A type of Installment Purchase Agreement;
 - Can either be short-term or long-term; and
 - Presents the best option for most of the County's current capital needs.
 - **Short-term Financing** - includes Lease Purchase or Short-term direct borrowing. Forsyth County has traditionally limited total short-term financing in a given year to less than \$1.5 million. Typically this type of financing is:
 - For terms of five (5) years or less; and
 - Used for capital items which typically exceeds \$100,000 and have a relatively short useful life.
 - **Pay-As-You-Go Financing** - the use of current income or fund balance (savings).
 - Assigned capital funds represent money set aside each fiscal year for capital projects;
 - General Statute 159-18 allows counties to establish capital project funds for any capital purpose. However, once a capital project fund (Board adopted Pay-Go Plan) is established, funding is allowed according to the Pay-Go Plan;
 - Historically used for capital items which cost less than \$100,000. However, Forsyth County has used pay-as-you-go to fund some phases of Triad Park (\$400,000) and up-fits to the Public Safety Center (\$2 million);
 - Forsyth County's fund balance policy commits any excess of fund balance over 14% of the County's expenditures for capital projects; and
 - There is no debt associated with this funding.
 - **Sale or Exchange of Assets** - use the sale of assets towards replacing that asset, or other needs, if deemed appropriate.
 - **Other Participating Governments** - use where other governments have provided restricted funds to help fund any project.
 - **Donations/Gifts** - normally any donor or grantor specifies the uses for the donation.
 - **Certificates of Participation** - a type of installment purchase agreement
 - Typically have higher interest rates than GO bonds;
 - Debt is secured funds resulting from the project being financed and not the "full faith and credit" of the government; and
 - Typically financed for ten- to twenty-year terms.
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The Plan contained herein is not an approved Plan. Final approval of any plan or project is subject to subsequent action by the Board of Commissioners. Some of the projects contemplated in this plan require long-term financing. On April 27, 2015, the Board of Commissioners amended its formal debt policy for the County from limiting the total annual debt service, less revenues restricted to debt service (including but not limited to, federal payments related to “Build America Bonds” and “Qualified School Construction Bonds” and State lottery proceeds) to 15% of the appropriations in the annually adopted budgets as shown in the budget ordinance. The amended policy limits annual debt service to a raw 18% of the annually adopted budget as shown in the budget ordinance. This is a simpler computation and quickly allows the casual observer to see when debt capacity is getting near.

The Capital Improvement Plan as shown in the following pages attempts to adhere to this policy; however, if any of the proposed projects move the debt percentage above 18%, this plan will have to be modified to adhere to the policy. A caveat to the debt policy is that the percentage is a function of numerator over denominator, therefore if the annually adopted budget does not increase so that the denominator increases, there will be difficult decisions to make on which projects are funded first.

The table below shows that if the Board elects to max the County's debt capacity, we will reach the 18% debt limit rapidly and by FY2019. Existing debt continues to reflect a decrease through FY2021. These percentages are based upon the expenditure projections outlined on page 58. In order to maintain the integrity of the debt policy, changes in the proposed plan will probably have to be made prior to embarking on any projects.

In addition, if the total appropriations increase at a greater rate than projected, these percentages will be lower as well. Under the proposed CIP + Existing debt, an Education Debt Leveling Plan would be recommended for the two education bonds - Forsyth Technical Community College (\$65 million bond referendum) and WS/FC Schools(\$150 million bond referendum) currently proposed for November 2016.

| Long Term Debt Service as a percent of budget: | | | | | | | |
|--|----|---------|---------|--------|--------|--------|--------|
| | FY | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Existing: | | 14.9% | 14.0% | 13.2% | 12.5% | 11.7% | 11.1% |
| Existing + proposed CIP | | 14.9% | 14.1% | 15.8% | 17.9% | 17.8% | 18.0% |
| Available for Debt Service | | 3.1% | 3.9% | 2.2% | 0.1% | 0.2% | 0.0% |
| \$ Available for Debt Service (in millions) | | \$12.8m | \$16.4m | \$9.5m | \$261k | \$904k | \$241k |

The CIP is reviewed by the Commissioners periodically, usually twice a year, once at the annual Commissioners' Planning Workshop, and then again during their annual budget deliberations. The most recent discussion occurred in February 2015 during the strategic planning session for the FY 2016 budget.

The CIP consists of four Sections:

1) *CIP Summary* - this section provides a summary of the capital improvement plan in table form. The summary presents the estimated capital costs for each department and the years in which the County expects to assume that debt.

2) *Individual Project Descriptions* - this section explains each CIP project in further detail on the included tables. The table includes the benefits and effects of funding the project as well as the expected method of financing and its impact on the operating budget.

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3) *Future Budget Impact Analysis* - this section evaluates the impact of the CIP on the operating budget and the County's debt tolerance. These tables and charts present the potential effects of the CIP on the County's ability to maintain its current fiscal practices and its ability to borrow money without compromising the County's strong financial status. Annual needs include any costs which will impact the General Fund. Annual needs include debt service and all related operating costs of the project once complete, i.e., personnel, utilities, etc.

4) *Unfunded Projects*. This section provides a brief summary of projects submitted but not included in the proposed CIP. The summaries include a description of the project and details as to why it is not proposed in the CIP.

For the Capital Improvement Planning period for 2016-2021, the requested projects cost an estimated \$826 million. The proposed Capital Improvement Plan presented on the following pages recommends projects totaling \$333 million during the planning period.

Key points of the Capital Plan include:

Source of Funding for Included Projects

| | |
|--------------------------|-----------------------------|
| GO Bonds | \$198,400,000 |
| Limited Obligation Bonds | 87,650,000 |
| Short Term Financing | 0 |
| 2/3rds Bonds | 40,400,000 |
| Pay Go | 6,825,000 |
| Sale of Assets | <u>0</u> |
| Total | <u>\$333,275,000</u> |

The projects identified above have been discussed with the Board of Commissioners at the February 2015 Winter Worksession. The Capital Improvement Plan is not a stagnant document and changes and updates are constantly being made as priorities change and opportunities arise.

Below provides and outline of the projects proposed for the planning period 2016-2021. All projects require final approval by the Board of Commissioners before moving forward.

Winston-Salem/Forsyth County School Projects - Requested Bond Referendum

The Winston-Salem/Forsyth County Schools have requested projects totaling \$575,000,000 and for a bond referendum to be held. The amount included in the Plan for the Winston-Salem/Forsyth County Schools is \$575,000,000, however, the plan period includes two (2) bond referenda for a portion of the School's request. A \$150 million referendum is proposed for November 2016 (FY2017). Two additional referenda are slated every four years for the remaining \$425 million - November 2020 referendum for \$215 million and a proposed November 2024 referendum for \$210 million. A successful referendum in November 2016 is assumed for the proposed \$150,000,000. This plan assumes all \$150 million of bonds would be issued during the planning period. The related operating costs (salaries, utilities, etc.) as well as debt service estimates are shown below to reflect the potential impact of the request on the General Fund.

The School system's request includes 4 new schools, 9 replacement schools, 4 partial replacements, 7 renovations, and district wide projects that may include life cycle maintenance projects. A portion of the bond proceeds would go towards shoring up the capital maintenance fund for life cycle and regular maintenance projects.

The estimated total debt service on the issuance of \$150 million in G.O. bonds assuming a 5% interest rate is \$227,354,168 (\$150m in principal payments and \$77.4m in interest). The interest rate will more than likely be slightly less than 5% if bonds are eventually sold for these projects.

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| <u>Fiscal Year</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> |
|-------------------------------|------------------------|-------------------------|-------------------------|-------------------------|
| Debt Service | \$2,354,167 | \$15,394,736 | \$15,000,000 | \$14,605,262 |
| Relating Operating Cost | 743,000 | 761,575 | 780,614 | 800,130 |
| Total General Fund Impact | <u>\$3,097,167</u> | <u>\$16,156,311</u> | <u>\$15,780,614</u> | <u>\$15,405,392</u> |

Winston-Salem/Forsyth County Schools Capital Maintenance Plan

The Schools Capital Maintenance Plan is an effort to provide a consistent funding source for lifecycle projects such as boiler and roof replacements. Two-thirds bonds are issued every other year to provide \$6.5 million for capital repair and maintenance projects. Additionally, a \$1.735 million annual transfer from the General Fund is made to support this plan. The amount included in the plan for Capital Maintenance of facilities is \$19,500,000. These projects will be funded through the use of 2/3rds Bonds issued every other year. The School System is scheduled to receive \$6.5m every other year beginning in FY2017, FY2019, and FY2021.

| <u>Fiscal Year</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| Debt Service | 667,105 | 693,940 | 752,014 | 1,300,000 | 1,265,789 |

Forsyth Technical Community College (FTCC) - Bond Referendum Request

This proposed CIP assumes projects totaling \$117.0 million and include the following: \$26 million for Main Campus Renovations and technology updates at various campuses; \$27 million for a 90,000 sq foot education building on main campus; \$18 million for an Aviation/Aerospace program at Smith Reynolds Airport; \$4.4 million for a 20,000 square foot addition at the Northwest campus for classroom space, computer labs, nursing labs, biology labs, etc., and \$41.6 million for a new campus in the western part of Forsyth County for classrooms, computer labs, nursing labs, biology labs, early childhood labs, continuing ed. classrooms, and an 80,000 square foot education building.

The proposed CIP proposes two bond referenda for the identified projects with \$48.4 million for a proposed November 2016 Bond Referendum with the remainder pushed out to a November 2020 or 2024 referendum. A successful referendum in the Fall of 2016 is assumed for the proposed \$48.4 million and the funding requirements are as follows:

| <u>Fiscal Year</u> | <u>FY 2018</u> | <u>FY 2019</u> | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> |
|------------------------------|--------------------|------------------|------------------|------------------|------------------|------------------|
| Debt Service | 464,744 | 455,840 | 2,321,176 | 2,251,480 | 3,044,400 | 2,948,720 |
| Related Operating Costs | 1,801,540 | 1,846,579 | 2,391,143 | 2,450,922 | 2,512,195 | 2,575,000 |
| Total Impact on General Fund | <u>\$2,271,284</u> | <u>2,302,419</u> | <u>4,712,319</u> | <u>4,702,402</u> | <u>5,556,595</u> | <u>5,523,720</u> |

A debt leveling tax increase is proposed as a funding option for this referendum. Debt leveling plans are a method by which debt service for these bonds would not impede other County programs from being funded and there would be a guaranteed method by which to pay the debt service.

Forsyth Technical Community College (FTCC) - Capital Maintenance Plan

The FTCC Capital Maintenance Plan is an effort to provide a consistent funding source for lifecycle projects such as boiler and roof replacements. Two-thirds bonds are issued every other year to provide \$2.3 million for capital repair and maintenance projects. For the proposed plan period \$6,900,000 is included for the Capital Maintenance Program through the plan period. requirements are as follows:

| <u>Fiscal Year</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| Debt Service | 60,728 | 225,158 | 443,053 | 496,516 | 652,475 |

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| All Projects Considered | Total Project(s) Requested | Proposed in Plan | Debt Leveling Proposed |
|---|-------------------------------|---------------------|---------------------------|
| <p>Winston - Salem/Forsyth County Schools: The WSFC School staff requests a November 2016 referendum to fund projects totaling \$575m. Staff provided a generic potential bond request which includes 4 new schools (\$90m), 9 Replacement Schools (\$145m), 4 Partial Replacements (\$80m), 7 Renovations (\$92m), and District Wide projects (\$168m). The amount of \$575m is based on information provided in April 2015. The plan proposes multiple Bond Referenda to provide the funding for these projects. Referenda are proposed for Fall 2016 (\$150m referendum), Fall 2020 (\$175m referendum), Fall 2024 (\$125m referendum) and Fall 2026 (\$125m referendum). The Plan assumes that \$150 million would be spent during planning period and the remaining \$425m will be placed on future bond referenda. The \$575m includes a 30% inflation adjustment per School System staff and includes 4 new schools</p> | 575,000,000 | 150,000,000 | x |
| <p>Forsyth Technical Community College: Forsyth Tech requests a November 2016 bond referendum seeking approval for the County to issue debt to fund the following \$117m in projects: \$26m to complete Main Campus Renovations and to update technology for the various campuses; \$27m for a 90,000 sq foot educational building on main campus; \$18m for an Aviation/Aerospace program at Smith Reynolds Airport to include purchase of an old maintenance facility; \$4.4m for a 20,000 sq ft addition at the NW Campus; and \$41.6m to construct a new western campus and additional 80k sq ft educational facility. <i>The proposed Capital Improvement Plan includes a Bond Referendum scheduled for November 2016 for a total of \$48.4 million. The proposed Western Campus and additional educational building on Main Campus are pushed into years outside the plan period 2016-2021.</i></p> | 117,000,000 | 48,400,000 | x |
| <p>Winston - Salem/Forsyth County Schools: Capital Maintenance Plan (FY2017 2/3rds Bonds and alternating years) - funds ongoing life cycle replacements and repairs. Assumes \$6.5m issued in FY2017, 2019, and 2021.</p> | 19,500,000 | 19,500,000 | |
| <p>Forsyth Technical Community College: Capital Maintenance Plan (FY2017 2/3rds Bonds and alternating years) - funds ongoing life cycle replacements and repairs. Assumes \$2.3 million issued in FY2017, 2019, and 2021.</p> | 6,900,000 | 6,900,000 | |
| <p>Hall of Justice - (FY 2017-FY 2018 - LOBS) - Renovate or replace Hall of Justice to provide additional courtroom space and technology upgrades. Plan includes \$50m for Phase 1 of either a new Courthouse ore addition to the existing building. Assume LOBS to be used rather than G.O. Bond referendum.</p> | 80,000,000 | 50,000,000 | |
| <p>SciWorks - Replace or renovate nature science museum. (FY2019 LOBS)</p> | 25,000,000 | 25000000 | |
| <p>Park System Capital Maintenance and Development - (\$2 million in FY2017 and alternating years)</p> | 6,000,000 | 6,000,000 | |
| <p>County General Capital Maintenance (FY 2015 and alternating years)</p> | 6,000,000 | 6,000,000 | |

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| | | | |
|---|---------------------------|---------------------------|--|
| Public Safety - Upgrade or replace 800MHz Radio System - County share of project only. (FY2018 - FY2020 LOBS) | 12,650,000 | 12,650,000 | |
| Human Services - Public Health Department Renovations - Nursing and Medical Records Areas - (FY2017 2/3rds Bonds) | 2,000,000 | 2,000,000 | |
| Information Systems (FY 2016 - FY 2021 SAN and Network Switches, Data Archive System, Telephone System & various other IT related replacements - 5 year financing or Pay Go) Propose pay-go as first funding option if available. | 7,907,500 | 6,825,000 | |
| Grand Total | <u>857,957,500</u> | <u>333,275,000</u> | |