

Buncombe County School Capital Fund Commission

Fund Balance Forecast

10/10/2022

This document should be referenced when reading the attached Fund Balance Forecast tables.

Summary

FY2023 Article 39 capital requests from both school systems total \$31,185,441. Even with conservative estimates of inflows (revenues) and outflows (debt service), there is capacity to fund the entire request. If the Commission recommends funding for less than the complete request, projections will look better. The forecast assumes 100% of the current cycle (FY2023) and the total CIP amount provided by the school systems. Assuming that Buncombe County stays on cycle of issuing debt every two years, the fund balance should remain adequate. These estimates do not show what the Commission should recommend for funding but rather what they could recommend.

Revenues

Article 39 Sales Tax

Article 39 Sales Tax is the primary revenue source for the School Capital Fund Commission (SCFC). The term “Article 39” corresponds with the legislation article in the NC general statutes and reserves the first 1 cent of 7 cents of our local sales tax. Targeted legislation requires Buncombe County to spend 50% of all Article 39 sales tax revenues on School Capital projects greater than \$100,000. In FY22, this amount totaled \$26.7M.

Article 39 sales tax had traditionally grown at an average rate of 4% annually until FY21 when annual growth reached 14% and held through FY22. The surge in growth over the last two fiscal years is most likely attributable to natural local economic activity and expansions in the sales tax base (i.e., what is taxed). We use a conservative projection, given the recent uncertainty within the economy. Scenarios for both 3% growth and 5% growth are attached.

Build America Bond Subsidies

As part of prior debt issuance, the County was eligible to receive annual subsidies on debt payments for a certain number of years. Build America Bond subsidies will be going away and should not be considered ongoing.

Interest Earnings/Other

Each fiscal year, the Finance office allocates interest earnings on eligible cash within each of our accounting funds (the County has many funds that account for various operations). This amount has typically been relatively low, as shown by the FY22 amount of \$26,310. For projection purposes, this source generally is not considered.

Bond Proceeds

Buncombe County issues debt for all projects in the SCFC Fund. Issuing debt allows our Commission to recommend funding for more annual project requests by stretching payments over the life of our projects (typically 20 years). When Buncombe County sells the bonds (aka borrows the money), we record the

revenue in an account called “Bond Proceeds.” The FY22 amount represents the revenue we received from the LOBS 2022 issuance. The 2024 number (\$54.3M) represents the balance of projects approved in prior years that still need debt funding (\$23.7M) plus the FY23 amount of \$31M. For 2026, this would be projects recommended/approved in the FY24 and FY25 SCFC cycles.

Closures/Adjustments

When compiling the Fund Balance forecast, we tie the activity to our financial statements to get a proper starting place. This line represents any project closures that happened in the fiscal year listed. Including this item makes the total revenue amount correct and matches our financial statements.

Expenditures

Approved Projects in Progress

This line intends to show the spending in the last audited year (2022) and then show the outflow of the approved projects each year forward. Essentially, the Bond Proceeds revenue line and the Approved Projects in Progress should eventually cancel each other out. For FY22, this amount represents actual spending against projects in this accounting fund, meaning we spent \$15.5M in FY22. For the year 2023, \$36M represents **all outstanding unspent budget at the end of FY22**. For years 2024-2027, amounts correspond to the prior year's approved funding.

Closures/Adjustments

This line represents any project closures that happened in the fiscal year listed and should match the Closures/Adjustments in the Revenues section.

Pending Debt Service

As of the end of FY22, there are \$23,138,198 in estimated approved project actuals that will need to be part of the subsequent debt issuance. This line identifies the anticipated annual debt service (principle and interest payments on debt/loans) related to this amount. The next debt issuance should include this \$23M plus projects approved in this current FY23 cycle.

Estimated New Debt Service

This line shows the anticipated debt service on projects approved in the current cycle (FY23) and forward. The assumption uses the average coupon listed in the table (4%) and a 20-year amortization. Debt is projected to be issued every two years (FY2024, FY2026). Remember that the main activity in this fund, as far as this Commission is concerned, is the comparison of inflows (Article 39 Sales Tax Revenue) to outflows (debt service on approved projects).

Debt Issuance Costs

When Buncombe County issues debt, issuance costs are associated with financial advisors, various counsels, the State of North Carolina, and others. We use an estimate as provided in the Fund Balance Forecast notes.

Existing Debt Service

This line represents actual debt service obligations for Buncombe County. This fund has debt obligations through 2040, with \$174.8M in principle remaining. Note the \$3.3M decrease between 2026 and 2027.

Estimating Available Fund Balance

Fund balance begins with the audited ending FY21 amount (16,178,931); this line tracks the impact of the actual and estimated activities within the fund. There needs to be enough fund balance to cover project expenditures between debt issuances, which hasn't been a problem in the past.

Assumptions

Estimated Sales Tax Growth %: The index used for projected sales tax growth.

Capital Improvement Plan (Total): Both ACS and BCS have provided CIP documents.

ACS CIP: 2023-2026 are pulled from ACS's project request document, 2027 is 2026 carried forward

BCS CIP: 2023-2027 are pulled from the CIP document that BCS provided on 9/1/2022. These look like general allotments for project areas (roofing, tracks, etc.) with a growth index year-to-year

Funding Awarded: These scenarios assume full request in 2023 and 100% CIP amounts

Potential Debt Issued: Matches *Funding Awarded* amount

Average Coupon: 4%. Buncombe County's last debt issuance had a rate of 2.93%. 4% is a conservative estimate.

Ratios & Measures

Ratios are included to support/guide decision making.

Debt Service to Sales Tax Revenue shows us the how much of the annual sales tax revenue we are spending on debt service. These scenarios assume full CIP spend so the percentages are higher than if the Commission were to fund the full request. Under the 3% assumption, 2026 is a year where we would see annual revenues be lower than annual debt service. This will need to be revisited in later years.

% Annual CIP Funded shows how much of annual requests the Commission recommends.

CIP Amount Unfunded shows how much of the CIP is **not** recommended by the Commission. These amounts show 0 with the assumption that the Commission recommends the full amount.

Public School Capital Needs Fund - For Planning Purposes

Fund Balance Forecast - Unaudited

10/10/2022

Annual 3% Article 39 Growth

	0	1	2	3	4	5
Fiscal Year	Historical 2022	2023	2024	2025	2026	2027
Beginning balance¹	16,178,931	41,174,724	10,233,708	34,151,728	3,268,969	36,419,701
REVENUES						
Article 39 Sales Tax ²	26,764,166	27,567,091	28,394,103	29,245,926	30,123,304	31,027,003
Build America Bonds Subsidies	189,394	-	-	-	-	-
Interest Earnings/Other	26,310	-	-	-	-	-
Bond Proceeds	66,927,000	-	54,323,639	-	64,173,290	-
Closures/Adjustments	(25,926,858)	-	-	-	-	-
Total revenues	67,980,011	27,567,091	82,717,742	29,245,926	94,296,595	31,027,003
EXPENDITURES						
Approved Projects in Progress ³	15,526,342	36,180,134	31,185,441	34,394,547	29,778,744	30,955,864
Closures/Adjustments	(25,926,858)	-	-	-	-	-
<i>Pending Debt Service⁴</i>	-	-	2,545,202	2,036,161	1,989,885	1,943,609
<i>Estimated New Debt Service⁵</i>	-	-	2,806,690	2,744,319	8,457,544	8,266,827
<i>Debt Issuance Costs⁶</i>	-	-	814,855	-	962,599	-
Existing Debt Service	53,384,735	22,327,972	21,447,535	20,953,659	19,957,090	16,657,003
Total expenditures	42,984,218	58,508,106	58,799,722	60,128,686	61,145,862	57,823,302
Revenues over (under) expenditures	24,995,793	(30,941,015)	23,918,020	(30,882,760)	33,150,732	(26,796,299)
Estimated Available Fund Balance	\$41,174,724	\$10,233,708	\$34,151,728	\$3,268,969	\$36,419,701	\$9,623,402

Assumptions

Sales Tax Growth % (Converted for formula)		103.0%	103.0%	103.0%	103.0%	103.0%
Capital Improvement Plan (Total)	-	31,185,441	34,394,547	29,778,744	30,955,864	32,072,633
ACS CIP		10,600,441	14,135,704	8,506,959	8,620,490	8,620,490
BCS CIP		20,585,000	20,258,843	21,271,785	22,335,374	23,452,143
Funding Awarded		31,185,441	34,394,547	29,778,744	30,955,864	32,072,633
Potential Debt Issued		31,185,441	34,394,547	29,778,744	30,955,864	32,072,633
Average Coupon		4.00%	4.00%	4.00%	4.00%	4.00%

Ratios & Measures

Debt Service to Sales Tax Revenue		81.0%	94.4%	88.0%	100.9%	86.6%
% Annual CIP Funded		100.0%	100.0%	100.0%	100.0%	100.0%
CIP Amount Unfunded		0	0	0	0	0
CIP Amount Unfunded, Balance		0	0	0	0	0

Notes

Numbers in blue are estimates or calculations based on estimates

^[1]2023 Beginning Balance represents unaudited FY2022 Ending Fund Balance.

^[2] Sales tax revenues presented on a modified-accrual basis. Includes 12 Months of Sales Tax, annually.

^[3] Assumes all outstanding balances on projects at the end of FY2022 are paid in full in first forecast year, then next year following award.

^[4] Anticipated debt for projects approved before 10/10/22: \$23,138,198; 20 years; 4% interest + Debt Issuance Costs

^[5] Estimated new debt service based on average coupon and debt issued assumptions. Assumed to be issued every 2 years.

^[6] Debt issuance costs based on amount of debt issued: (<10M = 4%, >10M & <25M = 2%, >25M & <75M = 1.5%, >75M = 1%)

Public School Capital Needs Fund - For Planning Purposes

Fund Balance Forecast - Unaudited

10/10/2022

Annual 5% Article 39 Growth

	0	1	2	3	4	5
Fiscal Year	Historical 2022	2023	2024	2025	2026	2027
Beginning balance¹	16,178,931	41,174,724	10,768,992	35,800,401	6,654,582	42,214,021
REVENUES						
Article 39 Sales Tax ²	26,764,166	28,102,374	29,507,493	30,982,867	32,532,011	34,158,611
Build America Bonds Subsidies	189,394	-	-	-	-	-
Interest Earnings/Other	26,310	-	-	-	-	-
Bond Proceeds	66,927,000	-	54,323,639	-	64,173,290	-
Closures/Adjustments	(25,926,858)	-	-	-	-	-
Total revenues	67,980,011	28,102,374	83,831,131	30,982,867	96,705,301	34,158,611
EXPENDITURES						
Approved Projects in Progress ³	15,526,342	36,180,134	31,185,441	34,394,547	29,778,744	30,955,864
Closures/Adjustments	(25,926,858)	-	-	-	-	-
<i>Pending Debt Service⁴</i>	-	-	2,545,202	2,036,161	1,989,885	1,943,609
<i>Estimated New Debt Service⁵</i>	-	-	2,806,690	2,744,319	8,457,544	8,266,827
<i>Debt Issuance Costs⁶</i>	-	-	814,855	-	962,599	-
Existing Debt Service	53,384,735	22,327,972	21,447,535	20,953,659	19,957,090	16,657,003
Total expenditures	42,984,218	58,508,106	58,799,722	60,128,686	61,145,862	57,823,302
Revenues over (under) expenditures	24,995,793	(30,405,732)	25,031,409	(29,145,819)	35,559,439	(23,664,691)
Estimated Available Fund Balance	\$41,174,724	\$10,768,992	\$35,800,401	\$6,654,582	\$42,214,021	\$18,549,329

Assumptions

Sales Tax Growth % (Converted for formula)		105.0%	105.0%	105.0%	105.0%	105.0%
Capital Improvement Plan (Total)	-	31,185,441	34,394,547	29,778,744	30,955,864	32,072,633
ACS CIP		10,600,441	14,135,704	8,506,959	8,620,490	8,620,490
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Funding Awarded		31,185,441	34,394,547	29,778,744	30,955,864	32,072,633
Potential Debt Issued		31,185,441	34,394,547	29,778,744	30,955,864	32,072,633
Average Coupon		4.00%	4.00%	4.00%	4.00%	4.00%

Ratios & Measures

Debt Service to Sales Tax Revenue		79.5%	90.8%	83.1%	93.5%	78.7%
% Annual CIP Funded		100.0%	100.0%	100.0%	100.0%	100.0%
CIP Amount Unfunded		0	0	0	0	0
CIP Amount Unfunded, Balance		0	0	0	0	0

Notes

Numbers in blue are estimates or calculations based on estimates

^[1]2023 Beginning Balance represents unaudited FY2022 Ending Fund Balance.

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^[5] Estimated new debt service based on average coupon and debt issued assumptions. Assumed to be issued every 2 years.

^[6] Debt issuance costs based on amount of debt issued: (<10M = 4%, >10M & <25M = 2%, >25M & <75M = 1.5%, >75M = 1%)