

# **Buncombe County School Capital Fund Commission**

## **Fund Balance Forecast**

**10/9/2023**

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

### **Summary**

FY2024 Article 39 capital requests from both school systems total \$40,433,086. With conservative estimates of inflows (revenues) and outflows (debt service) there is capacity to fund the entire request, but a conversation should happen on 10/9/2023 about the capacity to take on the full list of projects from both school systems, as there are many projects in that fund with less than 10% completion (22 projects out of 55 projects).

If the Commission recommends funding for less than the complete request, projections will look better. The forecast assumes 100% of the current cycle (FY2024) and the total CIP amount provided by the school systems, going forward. If 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.

If you want to do a quick read of the financials, the Estimated Available Fund Balance line is most important.

### **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 FY23, this amount totaled \$28M, a near 6% increase over the prior year. Our team uses conservative projections when building forecasts. Due to economic uncertainty and past trends, we are using a 3% annual growth factor on sales tax.

#### **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). Prior to FY23, this amount has typically been relatively low. 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 2024 number (\$54.3M) represents the balance of projects approved in prior years that we still need to sell debt for (\$23.7M). 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 shows the spending in the last audited year (2023) and then shows 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 since we debt finance all projects. For FY23, this amount represents actual spending against projects in this accounting fund, meaning we spent \$14.7M in FY23. For the year 2024, \$47.2M represents **all outstanding unspent budget through the current period**. For years 2025 forward, amounts correspond to the prior year's approved funding (note that the 2025 amount matches the request for 2024).

### **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.

### **Estimated New Debt Service**

This line shows the anticipated debt service on projects approved in the current cycle (FY24) and forward. The assumption uses a conservative coupon listed in the table (4%) and a 20-year amortization. Debt is projected to be issued every two years (FY2024, FY2026, FY2028). 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 \$159M in principle remaining. Note the \$3.3M decrease between 2026 and 2027.

## **Estimating Available Fund Balance**

Fund balance begins with the audited ending FY22 amount (\$41,374,724); 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.

**Funding Awarded:** These scenarios assume full request in 2024 and 100% CIP amounts going forward.

**Potential Debt Issued:** Matches *Funding Awarded* amount after year 2023

**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**

10/9/2023

Annual 3% Article 39 Growth	0	1	2	3	4	5
Fiscal Year	Historical 2023	2024	2025	2026	2027	2028
<b>Beginning balance<sup>1</sup></b>	41,374,724	33,712,301	42,356,297	5,789,064	44,681,639	21,783,564
<b>REVENUES</b>						
Article 39 Sales Tax <sup>2</sup>	28,311,666	29,161,016	30,035,846	30,936,921	31,865,029	32,820,980
Build America Bonds Subsidies	189,354	-	-	-	-	-
Interest Earnings/Other	897,675	-	-	-	-	-
Bond Proceeds	-	54,323,638	-	70,826,091	-	59,162,562
Closures/Adjustments	(12,775,569)					
<b>Total revenues</b>	16,623,126	83,484,654	30,035,846	101,763,012	31,865,029	91,983,542
<b>EXPENDITURES</b>						
Approved Projects in Progress <sup>3</sup>	14,720,640	47,241,279	40,433,086	30,393,005	26,907,155	32,255,407
Closures/Adjustments	(12,775,569)	-	-	-	-	-
<i>Estimated New Debt Service<sup>4</sup></i>	-	4,889,127	4,780,480	11,046,181	10,795,882	15,870,213
<i>Debt Issuance Costs<sup>5</sup></i>	-	814,855	-	1,062,391	-	483,831
Existing Debt Service	22,340,479	21,895,396	21,389,513	20,368,860	17,060,067	16,493,018
<b>Total expenditures</b>	24,285,550	74,840,657	66,603,079	62,870,437	54,763,104	65,102,468
<b>Revenues over (under) expenditures</b>	(7,662,423)	8,643,997	(36,567,233)	38,892,575	(22,898,075)	26,881,073
Estimated Available Fund Balance	\$33,712,301	\$42,356,297	\$5,789,064	\$44,681,639	\$21,783,564	\$48,664,637
<b>Assumptions</b>						
Sales Tax Growth % (Converted for formul	103.0%	103.0%	103.0%	103.0%	103.0%	103.0%
Interest Earnings Rate	3.17%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Improvement Plan (Total)	31,185,441	40,433,086	30,393,005	26,907,155	32,255,407	30,000,000
ACS CIP	10,600,441	9,391,086	9,121,220	4,571,781	8,803,264	9,889,957
BCS CIP	20,585,000	31,042,000	21,271,785	22,335,374	23,452,143	24,624,750
Funding Awarded	31,185,441	40,433,086	30,393,005	26,907,155	32,255,407	30,000,000
Potential Debt Issued	54,323,638	40,433,086	30,393,005	26,907,155	32,255,407	30,000,000
Average Coupon	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
<b>Ratios &amp; Measures</b>						
Debt Service to Sales Tax Revenue	78.9%	91.9%	87.1%	101.5%	87.4%	98.6%
% Annual CIP Funded	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
CIP Amount Unfunded	0	0	0	0	0	0
CIP Amount Unfunded, Balance	0	0	0	0	0	0

**Notes**

Numbers in blue are estimates or calculations based on estimates

<sup>[1]</sup>2024 Beginning Balance represents unaudited FY2023 Ending Fund Balance.

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

<sup>[3]</sup> Assumes all outstanding balances on projects at the end of FY2023 are paid in full in first forecast year, then next year following award.

<sup>[4]</sup> Estimated new debt service based on average coupon and debt issued assumptions. Assumed to be issued every 2 years.

<sup>[5]</sup> Debt issuance costs based on amount of debt issued: (<10M = 4%, >10M & <25M = 2%, >25M & <75M = 1.5%, >75M = 1%)