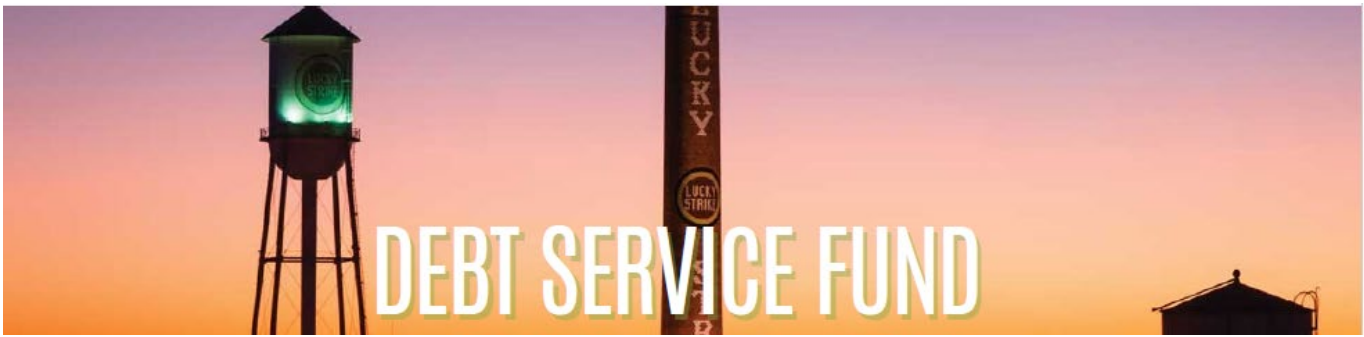




Debt Service Fund

A fund established to account for the repayment of debt principal and interest



Description

The Debt Service Fund was established in 1987 to provide for the annual repayment of bonded debt principal and interest, lease-purchase principal and interest, and bond agency fees. Long-term debt, apart from the Enterprise Fund's debt service, is accounted for in this fund. Prior to 1987, this appropriation was included in the General Fund.

- A bond referendum held in November 2007 was approved by voters, giving the County the authority to issue general obligation bonds in an aggregate principal amount not to exceed \$207.1 million to finance the construction of selected capital projects.
- In April 2007, the County issued the final \$34.09 million of general obligation bonds authorized in the 2003 bond referendum. All funds were allotted to Durham Public Schools projects. Also in April 2007, the County issued \$12.1 million in two-thirds general obligation debt to support six capital projects: \$3.8 million for Criminal Justice Resource Center renovations, \$500,000 for Main Library renovations, \$700,000 for Administration Building renovations, \$350,000 for Emergency Medical Services Station #1 renovations, \$2.7 million for Holton School (CIS Academy), and \$3.95 million for Durham Public Schools' future land purchases.
- \$60 million of voter-approved 2007 GO bond funds were issued in 2010 for Durham Public Schools, Durham Technical Community College (DTCC), and the NC Museum of Life & Science (NCMLS). Another \$60 million was issued in 2012 for Durham Public Schools. A third issuance of \$51 million was carried out in 2014 for Durham Public Schools. \$39.9 million of unissued 2007 GO bonds is expected to be spent over the next three years for Durham Public Schools and Durham Technical Community College.
- Durham County issued \$125 million in non-general obligation bond funds during FY 2012-13 for various projects including the new Justice Center, (former) judicial building renovations, and a County storage facility.
- A General Obligation bond referendum in November of 2016 approved by a large majority of Durham County citizens supports Main Library renovations, Durham Public Schools infrastructure, Durham Technical Community College capital needs, and North Carolina Museum of Life and Science renovations.
- During the 2016 General Obligation Bond referendum, voters were told that up to 2.5 cents of additional property tax would be needed to support the additional GO Bond debt along with other debt issuances the County planned to make over the 10-year view of the 2017-26 Capital Improvement Plan (CIP). After several recent refinancings of existing debt, along with revised future debt costs and slower than expected debt issuance, the property tax increase needed to support ongoing debt service resulted in a 1.75 cents property tax increase in FY 2017-18.
- Durham County's most recent General Obligation Bond referendum was in November of 2022 and again was approved by a large majority of Durham County citizens. Approved funding was dedicated for Durham Public Schools (new schools and refurbishment or expansion of existing schools), Durham Technical Community College (new buildings), and North Carolina Museum of Life and Science site renovations.

| 2007 Bond Authorization | |
|------------------------------------|----------------------|
| Durham Public Schools Facilities | \$193,448,205 |
| NC Museum of Life and Science | \$4,170,812 |
| Durham Technical Community College | \$8,680,000 |
| Issuance Costs | \$800,983 |
| TOTAL | \$207,100,000 |

| 2016 Bond Authorization | |
|------------------------------------|----------------------|
| Durham Public Schools Facilities | \$90,000,000 |
| NC Museum of Life and Science | \$14,067,705 |
| Durham Technical Community College | \$20,000,000 |
| Main Library Renovations | \$44,297,262 |
| Issuance Costs | \$1,635,033 |
| TOTAL | \$170,000,000 |

| 2022 Bond Authorization | |
|------------------------------------|----------------------|
| Durham Public Schools Facilities | \$423,505,000 |
| NC Museum of Life and Science | \$13,995,000 |
| Durham Technical Community College | \$112,740,000 |
| TOTAL | \$550,240,000 |

- For FY 2025-26, the portion of the County tax rate dedicated to fund the Capital Financing Plan, which helps support debt service payments will increase 1 cent (over the revenue neutral rate of 6.57 cents) to 7.57 cents to provide funding support related to the 2022 GO Bond referendum. Additional tax increases may be needed to support this bond referendum’s full costs in future years.
- North Carolina law limits local government net debt to 8% of assessed value. Based on current valuations, the County could issue \$4.1 billion in debt. As of June 30, 2024, the County has \$222.05 million in outstanding General Obligation debt. An additional \$430.15 million in Limited Obligation Bond debt and \$75.15 million of installment purchases (short term debt) is not included in this legal limit.

Budget

| Category | FY 2023-24 Actuals | FY 2024-25 Original | FY 2024-25 Estimate | FY 2025-26 Requested | FY 2025-26 Approved | % Change Orig. v. Appr. |
|------------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|-------------------------|
| Expenditure | \$130,144,113 | \$108,841,636 | \$108,013,174 | \$116,589,842 | \$116,589,842 | 7.12% |
| Other Expenditure | \$126,330,725 | \$107,749,942 | \$93,030,782 | \$116,589,842 | \$116,589,842 | 8.20% |
| Transfers Out | \$3,813,389 | \$1,091,694 | \$14,982,392 | | | -100.00% |
| Revenue | \$149,971,497 | \$108,841,636 | \$109,078,422 | \$116,589,842 | \$116,589,842 | 7.12% |
| Investment Income | \$1,939,420 | \$890,823 | \$2,140,816 | \$1,597,442 | \$1,597,442 | 79.32% |
| Service Charges | \$541,432 | \$500,000 | \$504,312 | \$500,000 | \$500,000 | 0.00% |
| Other Revenues | \$103,699 | | | | | |
| Transfers In | \$147,386,946 | \$107,450,813 | \$106,433,294 | \$114,492,400 | \$114,492,400 | 6.55% |
| Net County Cost | (\$19,827,384) | \$0 | (\$1,065,248) | \$0 | \$0 | |

The following table shows bond payments for the Debt Service Fund. Note: Information on Enterprise Fund debt service may be found in the Enterprise Fund section of this document.

| | 2023-24 Actual Expenditures | 2024-25 Original Budget | 2024-25 12 Month Estimate | 2025-26 Department Requested | 2025-26 Commissioner Approved |
|-----------------------|-----------------------------|-------------------------|---------------------------|------------------------------|-------------------------------|
| BOND PRINCIPAL | \$22,305,000 | \$34,689,051 | \$25,000,000 | \$33,869,916 | \$33,869,916 |
| BOND INTEREST | \$9,614,287 | \$18,246,107 | \$14,000,000 | \$17,220,514 | \$17,220,514 |
| OTHER* | \$98,224,826 | \$55,906,478 | \$69,013,174 | \$65,499,412 | \$65,499,412 |
| TOTAL | \$130,144,113 | \$108,841,636 | \$108,013,174 | \$116,589,842 | \$116,589,842 |

**Includes other debt service, bond agency fees, and debt sale expenditures.*

Budget Highlights

- Initial estimates for a tax rate increase needed to pay for costs related to the 2022 GO Bond referendum was an additional 2.5 cents on the property tax rate in the FY 2023-24 budget. Due to stronger than expected estimated revenue growth (dedicated to support debt service) the property tax rate increase needed for FY 2023-24 was approved at 1.5 cents and the FY 2024-25 capital financing related property tax rate stayed flat. The FY 2025-26 budget sees a 1.0 cent property tax increase above the revenue neutral property tax rate allocated to support continued 2022 GO Bond debt service and capital project allocations. Part of this property tax rate increase is due to lower-than-expected growth in dedicated sales tax revenue as well as a loss in occupancy tax revenue due to state law changes, and finally additional capital project costs related to inflation and new or expanded capital projects.
- FY 2023-24 estimates include actual issuance amounts that pass through the Debt Service Fund. And while they skew the totals versus budgeted amounts, they do not materially affect the overall spending related to debt service. They are technical allocations relating specifically to the issuances of long-term debt.