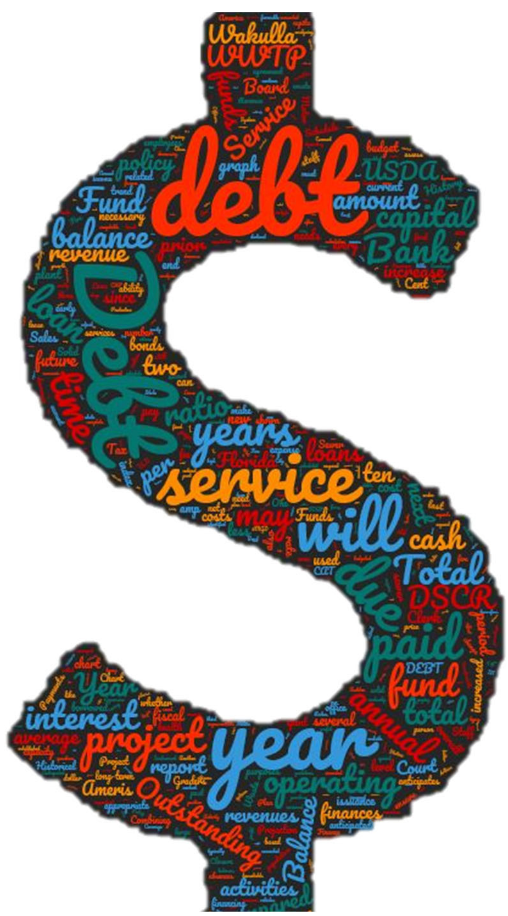
Wakulla County

9th Annual Debt Report

For

Fiscal Year Ended September 30, 2022

Prepared by the Wakulla County Clerk of Court, Finance Department



Board of County Commissioners and Citizens of Wakulla County,

As your Clerk of Court, it is my constitutional duty to keep you informed of Wakulla County's (the County) debt and to provide an independent check and balance on County finances to ensure your tax dollars are safe and being used in a sound financial manner.

For many years, the County's debt was managed in accordance with policies established as part of a broader financial policy package approved by the Board of County Commissioners (BOCC) in May of 2008 and as amended from time to time. The Clerk's office was instrumental in developing the County's first stand-alone debt policy as approved by the BOCC on January 20, 2015.

The County's debt policy calls for an annual debt report to be provided to the BOCC and the citizens of Wakulla County. This report is written in such a manner that non-financial readers may have a better understanding of the County's debt and how it impacts the overall health of the County's finances. The report that follows is for the fiscal year ended September 30, 2022.

As the accountant to the BOCC, I am glad to report that the County's overall debt status, while higher than in years past, is still favorable as of the close of the FY21/22. As with most governmental entities, and like most households, debt is a necessary component to the budget. Like households who borrow money to finance larger purchases such as vehicles and homes, the County borrows money from time to time to finance capital equipment and large infrastructure projects so that the County may continue to provide the necessary services its citizens expect while still maintaining proper fund balances. It is important to note the County will be acquiring a $30,000,000 line of credit in FY22/23 to help fund sewer, road, and other projects. This line of credit has a variable rate interest with an estimated $1,500,000 in future interest payments. It is expected to be paid off within twenty-four (24) months with grant reimbursement funds. In addition, the County signed an agreement with the Department of Environmental Protection to borrow $1,895,500 for the Wastewater Expansion Project, this is a Clean Water State Revolving Loan with payments beginning in FY23/24 for the next ten (10) years.

Our office is charged with a variety of tasks related to the debt of the County. We assist the County Administrator, David Edwards, with analyzing funding options and with debt structuring both during the budget process and after. We ensure timely payment of debt service obligations, pre-audit and maintain supporting documentation of all debt service payments, accurately account for all debt transactions in the general ledger for financial reporting purposes and ensure compliance with debt covenants and related third party reporting requirements.

The amount of debt owed by the County is not the only factor in determining the health of County finances. The Clerk's office prepared, and the BOCC approved, its first stand-alone fund balance policy in 2012. The County continues to work toward and maintain appropriate levels of fund balance and cash reserves in all operating funds. Part of the fund balance function is to ensure the County can meet its debt service requirements.

I am honored to serve as your Clerk of Court. I remain dedicated to promoting transparency and accountability in reporting the financial activities of our County in spending your taxpayer dollars. If you have any questions concerning the contents of this or any other report of our office, please contact me or my staff.

In your service,

Greg James
Wakulla County Clerk of Courts

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DEBT OVERVIEW

As of September 30, 2022

This unaudited report and the numbers contained herein represent only the capital infrastructure related debt of Wakulla County. It does not include any debt incurred by the Constitutional Officers (generally operating leases) and does not include other types of long-term debt such as compensated absences, pension obligations, other post-employment benefits or landfill post-closure liabilities. As such, this report is not intended to and will not match the audited Annual Financial Report for the same period.

Total Outstanding Debt & Debt Service Payments

Wakulla County's outstanding debt totaled $9,352,971 as of September 30, 2022 as compared to $8,585,554 in the prior fiscal year. During FY21/22, the County paid $1,125,480 in principal and interest on outstanding debt as compared to $840,430 in the prior fiscal year. The outstanding debt of the County increased $767,417 over the prior fiscal year.

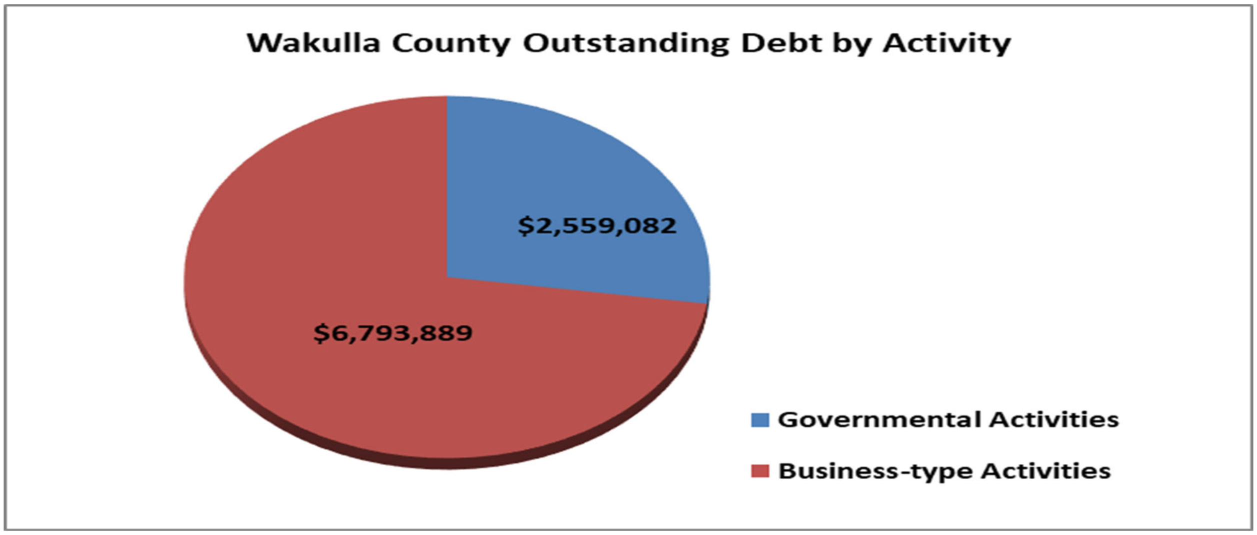
The County paid $881,423 in principal reduction in FY21/22 as compared to $591,501 in the prior year. The principal payments of $881,423 in FY 21/22 represent 9.42% of the balance due at the beginning of the year as compared to $591,501 (6.80%) in the prior year. The County paid $244,057 in interest expense in FY21/22 as compared to $248,929 in the prior year. The interest expense of $244,057 represents 2.61% of the balance due at the beginning of the year as compared to $248,929 (2.90%) in the prior year.

Total Outstanding Debt by Activity

Governmental accounting makes distinctions between activities that the County is responsible for that are not intended to function like a business, that is, make a profit or break even. These activities are called "governmental activities" and are accounted for in the General Fund, Special Revenue Funds, and Capital Project Funds. Activities that are more narrowly defined and are intended to function like a business, make a profit or break even, are called "business-type activities." The County has two such business activities, sewer, and solid waste, and, as such, they are accounted for in the Sewer Fund and Solid Waste Fund.

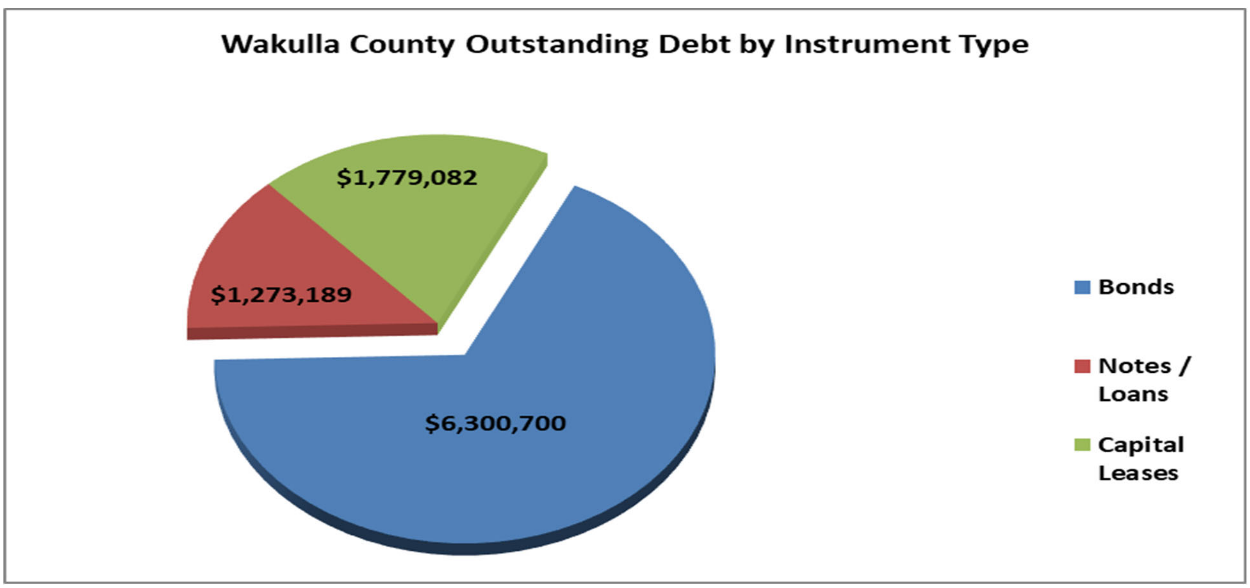
The total outstanding Governmental Activities debt in FY21/22 was $2,559,082 (27.364%) of total debt as compared to $1,621,899 (18.9% of total debt) in the prior year, which is an increase of $937,183. The total outstanding Business-type debt in FY21/22 is $6,793,889 (72.64%) as compared to $6,963,655 (81.1%) of total debt in the prior year, which is an increase of $169,766.

The following chart summarizes the County's outstanding debt by these activities.



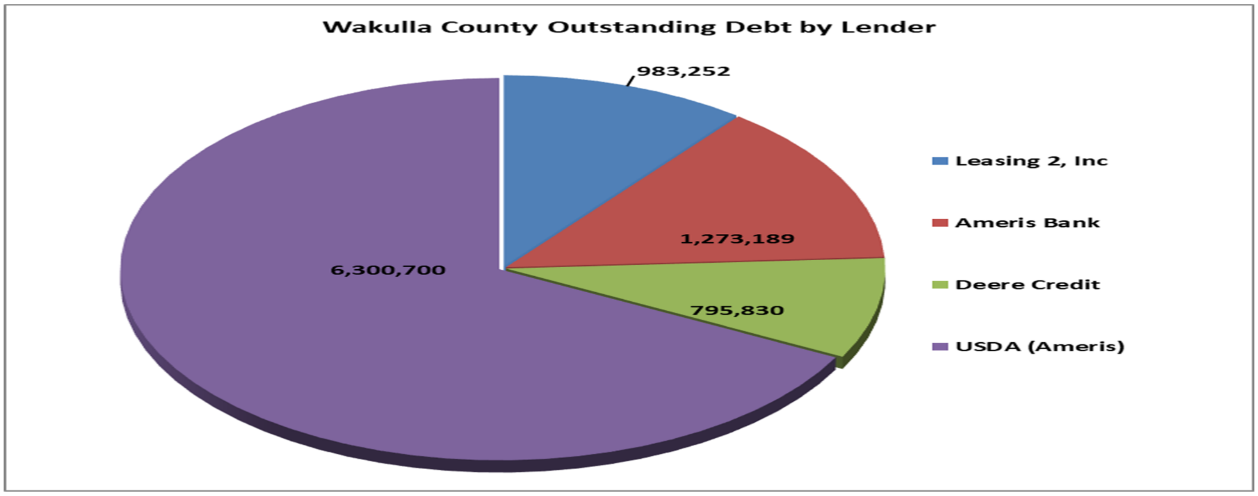
Total Outstanding Debt by Instrument

The graph below shows the types of debt the County had outstanding at September 30, 2022. The County's total debt balance of $9,352,971 is comprised of two (2) revenue bonds in the amount of $6,300,700, or 67.4% of the total debt, two (2) notes/loans in the amount of $1,273,189, or 13.6% and three (3) capital lease/purchase agreement in the amount of $1,779,082, or 19.0%.



Total Outstanding Debt by Lender

As outlined in the County's debt policy, the County selects the lender to borrow from, based on several criteria, but the primary factor is the cost of the borrowing (interest rate). The following chart summarizes the lenders the County currently owes and the balances owed at September 30, 2022.



There are two (2) loans with **Ameris Bank.** The first loan is for the Class III Landfill Closure Project. In November 2014, the Board approved a project to close (cap) the Lower Bridge Class III landfill. The project was required by Florida Department of Environmental Protection (FDEP) since the landfill was at capacity. Staff negotiated a long-term fixed interest rate loan of 3.36% from Ameris Bank. The County borrowed $925,000 and used approximately $300,000 in cash to complete the project. The loan is repaid in annual payments with the Solid Waste franchise fee over a fifteen (15) year period and will mature in 2029. The balance outstanding at year end was $493,189.

The second loan is for the new EMS/Fire Station on Trice Lane. The project is a $2,500,000 project funded with $1,300,000 in loan proceeds, $500,000 in legislative grant funds, and $700,000 in One Cent Sales Tax cash. Staff negotiated a long-term fixed interest rate of 2.28% from Ameris Bank. The loan is repaid in annual payments with the One Cent Sales Tax over a ten (10) year period and will mature in 2027. The balance at year end was $780,000.

The **CAT Financial** lease purchase is for three (3) Motor Graders. The County entered into a lease/purchase agreement for this heavy equipment for a term of five (5) years at an interest rate of 3.20% during the FY16/17. The balloon payment of $343,027 was paid in FY21/22. The County chose to turn the graders in instead of purchasing the equipment. Due to the high cost of maintenance on heavy equipment, especially as the equipment ages, the County often rotates this equipment through these lease purchase/buyback agreements. The balance was paid off during FY21/22 and a new lease was entered into with Deere Credit, Inc.

The **Deere Credit, Inc** lease purchase is for three (3) Motor Graders. The County entered into a lease/purchase agreement for this heavy equipment. The equipment will be paid for in five (5) installment payments at an interest rate of 3.20% with a balloon payment of $420,630 due in the fifth year (2027). Due to the high cost of maintenance on heavy equipment, especially as the equipment ages, the County often rotates this equipment through these lease purchase/buyback agreements. The balance outstanding at year end was $795,830.

There are two (2) lease agreements with **Leasing 2, Inc.** The first lease purchase is for a Toyne Fire Engine which is a primary response fire engine to be used for fire suppression and emergency call response. The County entered into a lease/purchase agreement for this heavy equipment. The equipment is paid in five (5) annual installments with an interest rate of 2.78% from the 1 Cent Sales Tax fund. The County also has the option to turn the Fire Engine in instead of purchasing the equipment. Due to the high cost of maintenance on heavy equipment, especially as the equipment ages, the County often rotates this equipment through these lease purchase/buyback agreements. The lease/purchase will mature September 30, 2027. The balance due at year end was $748,628.

The second lease purchase is for seventy (70) self-contained breathing apparatus (SCBA) units for the Fire Department through a capital lease/purchase agreement in FY20/21. The units cost approximately $480,000. The lease/purchase will be repaid by One Cent Sales Tax Public Safety funds over four (4) years at an interest rate of 3.81%. The lease/purchase will mature October 31, 2023. The balance due at year end was $234,624.

There are two (2) revenue bonds outstanding with the **United States Department of Agriculture (USDA)**. The BOCC approved a project to expand the existing Wastewater Treatment Plant (WWTP). The WWTP was almost at capacity and the Florida Department of Environmental Protection (FDEP) required this action by the BOCC in order to prevent a moratorium on issuing building permits. Staff negotiated a loan/grant agreement with the USDA in which the County borrowed $6,816,000 from a local/regional bank (Ameris Bank) during construction and USDA repaid the construction bank loan and, in turn, issued tax-exempt bonds in the amount of $6,495,000 and $321,000. The second bond was required due to additional cost estimates over the original estimate. The USDA provided a grant in the amount of $3,066,900 to complete the $9,882,900 project. The $6,495,000 bond has a fixed interest rate of 3.25% and the $321,000 bond has a fixed interest rate of 2.25%. Both bonds will be repaid with sewer revenues over the next 40 years and both will mature in 2057. At year end, the balance due on the first bond was $6,004,700 and the balance due on the second bond was $296,000, for a total due of $6,300,700.

DEBT HISTORY

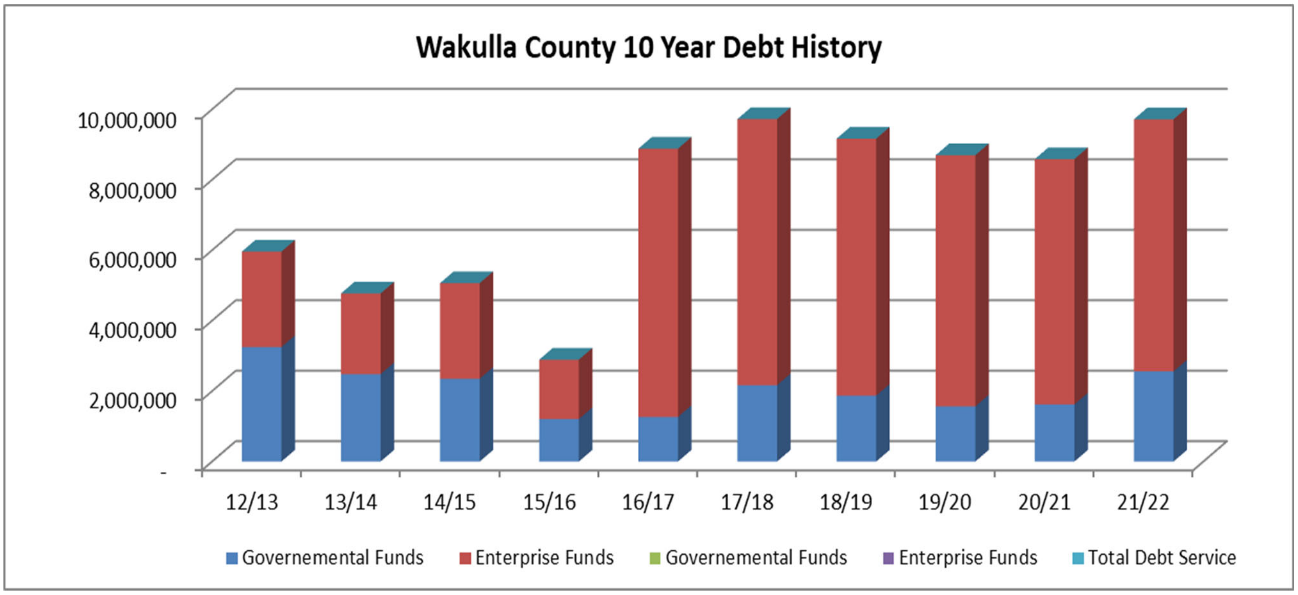
10 Year Historical Total Outstanding Debt

In the ten (10) year period 2013-2022 the County's debt averaged $7,309,764. The first three (3) years averaged about $5,265,792 with a reduction occurring from FY12/13 to FY15/16 ($4,672,516 average), with FY15/16 having the lowest total debt of $2,892,689, the lowest recorded debt since the County started formally tracking its debt in FY03/04. In the five most recent years, the County's debt has increased to an average of $9,104,970. For comparison, the highest recorded debt was $11,750,387 in FY04/05.

The County's debt at FY21/22 has increased by $3,392,362 or 56.9% over the ten (10) year period since FY12/13. The number of individual debt obligations has dropped from eleven (11) in FY09/10 to seven (7) in FY21/22 while the average maturity of the County's outstanding debt has increased from 4.9 years in FY11/12 to 10.23 years in FY21/22. Below is a chart and graph of the last ten years of debt history.

In $Millions

Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Governemental Funds	$ 3.25	$ 2.48	$ 2.35	$ 1.21	$ 1.27	$ 2.17	$ 1.87	$ 1.57	$ 1.62	$ 2.56
Enterprise Funds	2.71	2.29	2.71	1.69	7.62	7.56	7.30	7.13	6.96	$ 6.79
Total Debt Service	**$ 5.96**	**$ 4.77**	**$ 5.06**	**$ 2.90**	**$ 8.89**	**$ 9.73**	**$ 9.17**	**$ 8.70**	**$ 8.58**	**$ 9.35**

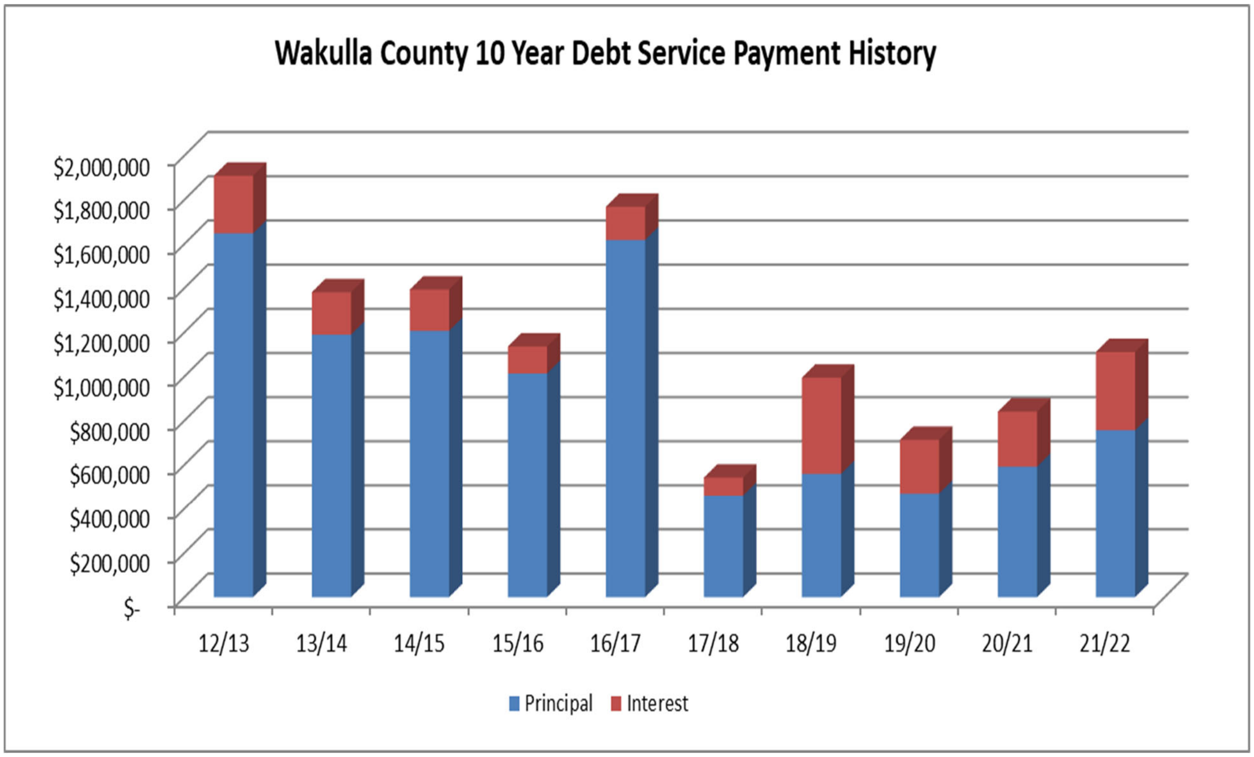


10 Year Historical Total Debt Service Payments

During the same period, 2013–2022, the County's annual debt service payments (principal and interest) have averaged $1,180,160. Increases or decreases in this average are either good or bad depending on whether the increase or decrease is due to additional principal payments being made or an increase in overall debt. As previously mentioned, there are many other factors that determine if an increase in debt will have a negative impact on the financial condition of the County.

The overall debt services payments have fluctuated over this ten (10) year period between $541,739 (FY17/18) and $1,908,705 (FY12/13) as shown in the chart and graph below.

Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Principal	$1,647,760	$1,189,072	$1,206,022	$1,013,419	$ 1,617,300	$ 459,713	$ 558,796	$ 469,207	$ 591,501	$ 766,497
Interest	260,945	192,196	187,217	122,062	150,819	82,026	435,435	243,702	248,929	358,982
Total Debt Service	**$1,908,705**	**$1,381,268**	**$1,393,239**	**$1,135,481**	**$ 1,768,119**	**$ 541,739**	**$ 994,231**	**$ 712,909**	**$ 840,431**	**$ 1,125,480**



DEBT PLANNING

Debt must be carefully planned in order to maintain the County's financial health. As with most things, there are pros and cons with debt. The County's debt policy prohibits the use of debt for routine operational expenses with one exception. The County does maintain a $2 million line of credit with Ameris Bank for emergency response/disaster recovery efforts. This line of credit has never been used by the County.

Expenditures in today's County budget arising from debt service payments (principal and interest) are obligations on present taxpayers that were decided years in the past, and debt incurred today will affect the taxpayers of the future. This is beneficial in the sense that existing users are only paying for the portion of infrastructure they use while they live here. Paying cash for some capital needs "front loads," or puts the full burden on those living here at the time and it places no burden on those who come afterwards but still use the infrastructure. The benefit to paying cash for these capital needs is that it costs less since there are no interest payments or loan fees. The disadvantage to using cash is that it can create uneven cash flow from year to year and detrimentally affect the health of the County's fund balance. So, a sound balanced approach between paying cash and borrowing is needed.

While the resources used to repay the County's debt comes primarily from restricted or dedicated revenues, the County often offers creditors assurances that the debt will be backed by the "full faith and credit" of the County, that is, the County promises to budget and appropriate sufficient revenues or cash to pay the debt, whether or not the restricted or pledged revenues are sufficient to do so.

The County's Debt Policy outlines specific guidelines for administering and managing existing debts and the issuance of new debt. This policy is consistent with the Government Finance Officers Association (GFOA) debt management policy best practices (2022) and with the State of Florida, Auditor General "*Local Governmental Entity Example Financial Condition Assessment Indicators and Related Procedures*" (2022).

Current Debt Retirement Schedule

The average maturity of the County's outstanding debt remained steady for FY20/21 and FY21/22 at 10.28 years. The County anticipates that four (4) existing capital leases will be paid off during the current "Five Year Plan" (FY22/23 – FY26/27).

This five (5) year plan is an estimate of the future operating and capital needs of the County. The plan is amended from time to time as the County's needs change, and it obviously does not take in to account the unforeseen or unknown. Circumstances will arise due to disrepair or emergency that may require the County to consider financing a capital expense that was not budgeted for in this plan. This uncertainty highlights the importance of having sufficient reserves budgeted and the resource flexibility to incur new unexpected debt.

The County also approves an "Adopted Infrastructure Plan" (AIP) every five years. The County has updated the plan in November of 2021. This plan outlines the major infrastructure needs of the County. Many of these projects will be funded directly by the State or with Federal and State grant funds, existing cash and borrowed funds or a combination thereof. This "AIP" is a "wish-list" in many ways. To provide some context, the total cost of all projects listed in the 2022 AIP totaled $390,220,380. This is an increase of $19,970,380, as compared to the 2017 AIP, which totaled $370,250,000.

Debt Retirement/Refinancing

One Capital Operating Lease was paid off in FY21/22 and a new one added. If no pre-payments are made and no debt is retired early, the County's existing debt will be retired as follows:

- Deere Credit Motor Graders Lease – $795,830 will be paid off by 8/27/2027
- Leasing 2, Inc Fire SCBA Equipment - $234,624 will be paid off by 10/31/2023
- Ameris Bank Fire/EMS Station Loan – $780,000 will be paid off by 10/1/2027
- Ameris Bank Landfill Closure Loan – $493,189 will be paid off by 10/1/2029
- USDA WWTP Revenue Bond #2 – $296,000 will be paid off by 8/29/2057*
- USDA WWTP Revenue Bond #1 – $6,004,700 will be paid off by 9/7/2057*
- Leasing 2, Inc Fire Engine - $748,628 will be paid off by 4/20/2027

* It is possible these two loans will either be paid off early or refunded as part of another WWTP expansion in future years beyond the existing five (5) year plan. See anticipated debt below.

Schedule of Future Anticipated Debt

The County's "Five Year Plan" anticipates many of the capital improvements being funded by grants and restricted cash. The County expects to potentially borrow funds for the following projects:

- Governmental Activities:
  <u>County Administration Complex</u>
  The widening of Crawfordville Highway will require the current County Administration facility and the facility that houses the Property Appraiser and the Supervisor of Elections to be demolished. The Florida Department of Transportation (FDOT) will pay the County for the value of the buildings and land but it is highly unlikely those funds will be sufficient to build a new facility elsewhere. County staff is currently looking at options and locations for relocating these facilities. While no hard costs are currently in the five (5) year plan, it is estimated the project will cost $10,000,000 with approximately $7,500,000 being borrowed. For purposes of estimating future debt impacts, it is estimated the loan will begin in FY23/24 and last for a 15-year term, ending in FY37/38. The interest rate is estimated to be 2.25% and is expected to be repaid from the One Cent Sales Tax Fund.

  <u>Line of Credit</u>
  There are a number of infrastructure related projects estimated to cost $25 million that are expected to be funded by grants. During the FY22/23, the County will secure a $15,000,000 line of credit to help with the costs of these and other projects rather than depleting cash on hand. The radio tower project will be the largest governmental activity expenditure over the next five (5) years. The County will expend $13 million between FY22/23 and FY23/24 on the radio tower project alone. This and other infrastructure expenditures will be paid with grant funding.

- Business-type Activities:
  <u>Line of Credit</u>
  There are a number of sewer projects estimated to cost $42 million that are expected to be funded by grants. During the FY22/23, the County will secure a $15,000,000 line of credit to help with the costs of these projects rather than depleting cash on hand. The sewer projects will be the largest business-type activity expenditure over the next five (5) years. The County will expend $14 million in FY22/23, $27 million in FY23/24, $24 million in FY24/25, $4 million in FY25/26, and $4 million in FY26/27. These expenditures will be paid with grant funding and restricted funds.

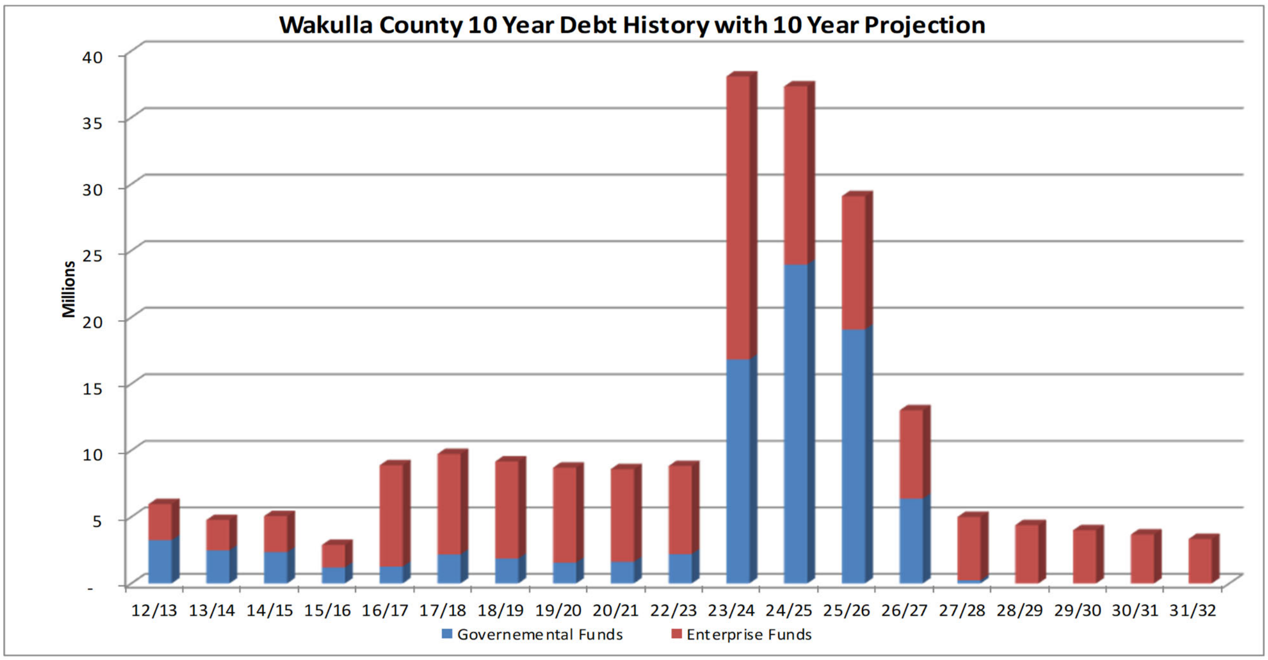
  <u>State Revolving Loan</u>
  In August of 2021, the County was awarded $1,895,500 revolving loan for Wastewater Expansion projects. The County will draw down the last of the funds during the FY23/24 and begin the repayment process February 2024. The repayment of this loan is expected to take place over the next ten (10) years with a maturity in FY32/33.

Combining Chart of 10 Year Debt History and 10 Year Debt Projection
The chart and graph below illustrate the County's ten (10) year, 2013-2022, debt history and the County's anticipated refunding and borrowing schedule for the next ten (10) years, 2023-2032. As shown in the graph, the bulk of the outstanding debt is expected to be related to the County's two (2) enterprise funds, Sewer and Solid Waste (the Red Bars).

In $Millions

Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Governemental Funds	3.25	2.48	2.35	1.21	1.27	2.17	1.87	1.57	1.62	2.56
Enterprise Funds	2.71	2.29	2.71	1.69	7.62	7.56	7.30	7.13	6.96	6.79
Total Debt Service	**$ 5.96**	**$ 4.77**	**$ 5.06**	**$ 2.90**	**$ 8.89**	**$ 9.73**	**$ 9.17**	**$ 8.70**	**$ 8.58**	**9.35**

Year	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
Governemental Funds	2.20	16.83	23.96	19.07	6.36	0.23	-	-	-	-
Enterprise Funds	6.62	21.26	13.39	10.02	6.64	4.77	4.38	4.00	3.67	3.34
Total Debt Service	**$ 8.82**	**$ 38.09**	**$ 37.35**	**$ 29.09**	**$ 13.00**	**$ 5.00**	**$ 4.38**	**$ 4.00**	**$ 3.67**	**$ 3.34**



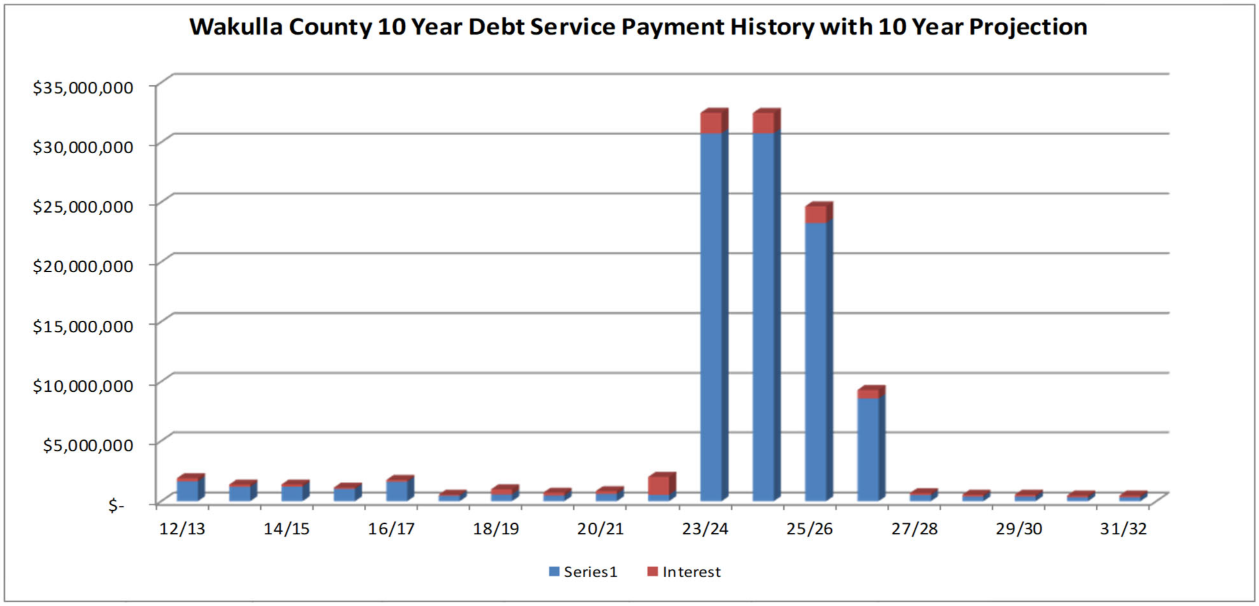
Combining Chart of 10 Year Debt Service History and 10 Year Debt Service Projection

The chart and graph below illustrate the County's ten (10) year, 2013-2022, annual debt service history and the County's anticipated annual debt service schedule for the next ten (10) years, 2023-2032.

As shown in the chart below and graph on the next page, the County's annual debt service payments have exceeded $1,000,000 for six (6) of the past ten (10) years. The total debt service decreased in FY17/18 as compared to the prior year due to three (3) loans and a capital lease being paid off in the amount of roughly $1,150,000. The payoff of the interim financing loan in FY16/17 in the amount of $6,617,632 has been removed from the chart and graph for comparison purposes. It is anticipated debt service payments will significantly increase through FY26/27 then start a decline.

Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Principal	$ 1,647,760	$ 1,189,071	$ 1,206,022	$ 1,013,419	$ 1,617,300	$ 458,741	$ 558,796	$ 469,207	$ 591,501
Interest	$ 260,945	$ 192,196	$ 187,217	$ 122,062	$ 150,819	$ 82,998	$ 435,435	$ 243,702	$ 248,929
Total Debt Service	$ 1,908,705	$ 1,381,267	$ 1,393,239	$ 1,135,481	$ 1,768,119	$ 541,739	$ 994,231	$ 712,909	$ 840,431

Year	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31
Principal	$ 530,957	$ 30,734,429	$30,743,397	$ 23,252,616	$ 8,584,093	$ 507,417	$ 380,817	$ 384,617	$ 326,850
Interest	$ 1,490,458	$ 1,733,453	$ 1,714,526	$ 1,400,257	$ 710,752	$ 164,448	$ 157,539	$ 152,058	$ 147,530
Total Debt Service	$ 2,021,415	$ 32,467,883	$32,457,923	$ 24,652,873	$ 9,294,844	$ 671,864	$ 538,355	$ 536,675	$ 474,380



DEBT MANAGEMENT & ANALYSIS

The County uses ratios, trends, and benchmarks to assess the County's level of outstanding debt. As a stand-alone number, these ratios are relatively useless, but the change in the ratios from year to year or the trend over time helps the County assess whether or not the total outstanding debt is at an appropriate level or if it is causing a financial burden.

While there are no statutory restrictions on the amount of debt the County may incur, industry norms and third parties have established benchmarks to help assess whether or not the County's total debt is at an appropriate or adequate level. These benchmarks must be refined or massaged to fit each local government since not all governments are the same size, have the same revenue resources, or provide the same services and so on. We also review these trends for mitigating factors that might cause the trend to seem favorable or unfavorable on the surface but not so when all variables are taken into account.

Many of the variables used in the following analysis must also be adjusted for inflation. The price index used by the Auditor General of Florida is the September Municipal Cost Index published by American City and County Magazine. This index is a weighted average of the consumer price index, the producer price index for industrial commodities and the construction cost index. These indices can be found on the *American City and County* website https://www.americancityandcounty.com/municipal-cost-index/ or *U.S. Bureau of Labor Statistics* web site https://www.bls.gov/cpi/.

Total Outstanding Debt per Capita

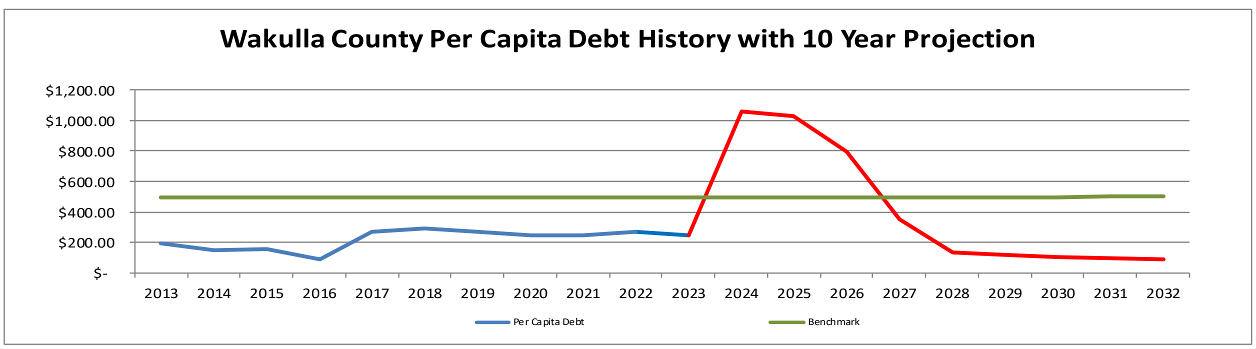
One of the ways the County analyzes its total debt is by looking at the amount of outstanding debt per citizen over time. If the results of this analysis are increasing over time it may indicate that the County has a decreasing level of flexibility in how its resources (revenues) are allocated to its costs or it even may indicate a decreasing ability to pay its long-term debt.

Simply put, as this number increases over time, the County is allocating more and more of its revenues to pay for annual debt services payments and is allocating less to operating costs or may be unable to adjust its budget due to unforeseen changes or events. And, as this number decreases, it indicates the County has the ability to easily adjust to unforeseen economic conditions.

The County's debt policy requires the outstanding debt amount not to exceed $500 per citizen. The estimated population of Wakulla County in 2022 was 35,072 which equates to an estimated self-imposed debt limit of $17,536,000. The actual debt for 2022 is $9,352,971, 53% of the per capita ratio and $267 per person.

The highest per capita debt was in FY 04/05 at $437 (not shown on chart) but it has since declined. The per capita debt of $267 increased in FY21/22 as compared to FY20/21 which was $248. The debt rate per capita is expected to increase in the next few years as the population continues to grow and total debt starts to increase to complete a number of sewer expansion projects. The population growth is estimated to be approximately 1.10% over the next ten (10) year period. The County population estimates are from the U.S. Census Bureau website: https://www.census.gov.

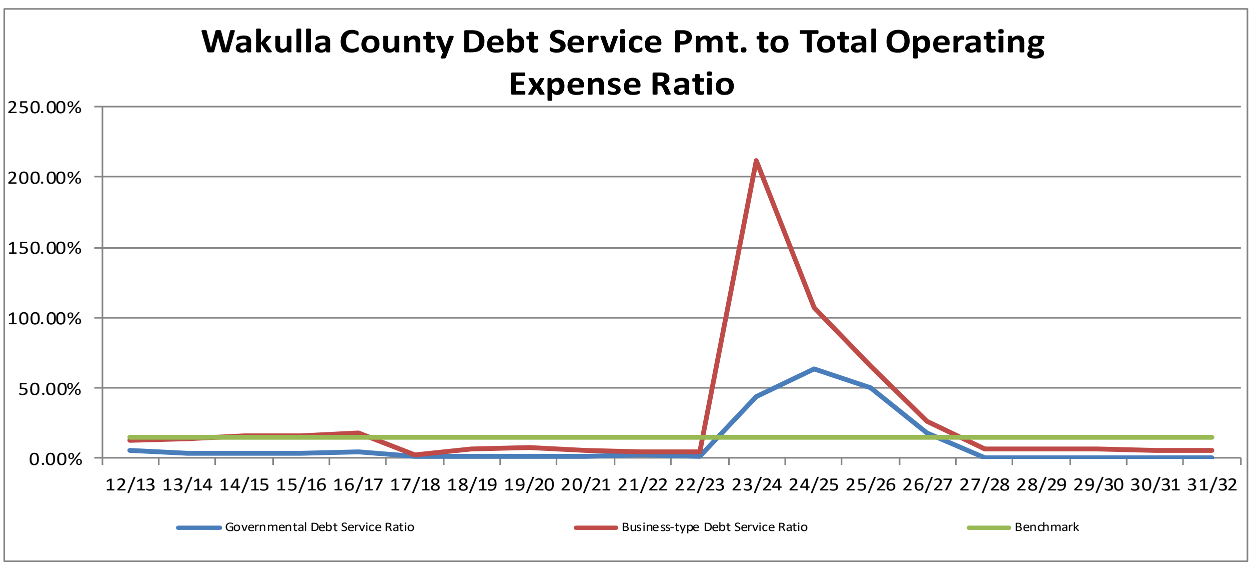
Is $500 an acceptable benchmark for Wakulla County? That depends on who you ask. Let's compare this to other actual debt averages. Currently, at the time of this report, the average federal debt per person in the U.S. is $94,521, the average state debt (Florida) per person is $6,239 and the average personal debt per person currently is $72,989, according to the U.S. Debt Clock (www.usdebtclock.org).



Debt Service Expenditures to Total Operating Expenditures
Another important factor in the overall health of the County's debt is looking at the trend of annual debt service payments (principal and interest) divided by the total operating expenditures (total expenditures, less capital expenditures, debt service payments and interfund transfers). It is important to distinguish governmental activities from business-type activities when looking at this trend. As the percentage of debt service payments compared to total operating expenditures increases over time, it may indicate a declining flexibility of the County to respond to uncertainties and changes in economic conditions. As the percentage decreases, it illustrates the County's ability to easily respond to these changing conditions. The County's debt policy recommends this ratio not exceed 15% (15 cents of every revenue dollar for debt service and 85 cents of every dollar for operating costs).

The Governmental debt service ratio has averaged 2.69% over the last ten (10) years and, based on the current long-range plan is expected to increase to 17.75% on average for the next ten (10) years. That is, about 18 cents on every dollar spent is expected to be spent on principal and interest payments over five (5) of the next ten (10) years. This increase is due to the rapid expansion fo infrastructure and how these costs are repaid over the next five (5) years before returning to a more normal average. For purposes of estimating this ratio, operating expenses are estimated to increase 2% each year.

While the Business-type debt service ratio has averaged 10.51% over the last ten (10) years, it has exceeded the 15% benchmark in three (3) of the last ten (10) years. This caused the cash position of the County's sewer and landfill funds to suffer and staff re-balanced the business-type debt with the issuance of the USDA revenue bonds to help with cashflow (FY17/18-FY21/22). While the ratio has improved, staff expects the future 10-year average ratio (90%) to be temporarily above the 15% benchmark, reaching 45% for the next five (5) years due to the number of sewer projects needed and the need to issue debt to pay for those projects. The BOCC has implemented new sewer rates in order to ensure the viability of the sewer fund. For purposes of calculating this ratio, the early retirement of debt in a given year is removed so that only scheduled annual debt service payments are analyzed.



Debt Service Coverage Ratios by Fund

Debt service coverage ratio (DSCR) is the ratio of cash available (net income) for debt service payments on an annual basis. Certain non-operating amounts are excluded from the net income calculation such as transfers in or out, certain non-routine capital expenditures and principal and interest payments.

This ratio is a benchmark used to measure the ability to produce enough cash to pay all operating costs (including depreciation expense) and the anticipated debt service payments annually. The higher the ratio the better it is. A ratio of 1.0 or more means you have sufficient revenues to pay the debt service payments and a ratio of less than 1.0 means you have insufficient revenues. The industry standard (credit rating agencies and banking industry) is typically between 1.10 and 1.20 depending on the particular circumstances of the borrowing. The County had a sewer rate study performed by Rafetilis to determine the sufficiency of wastewater revenue and access fee revenue. In its study Rafetilis used a debt service coverage ratio of 1.15.

While a DSCR is calculated for every fund with debt service payments, several factors make analyzing this ratio difficult across all funds. For example, in a capital project fund such as the One Cent Sales Tax Fund, the net income before making debt service payments may be very high for several years while the cash is building up for a large purchase or construction project. When the funds are spent, there is a net loss in the year the funds are spent and the DSCR may actually be negative. For that reason, a DSCR is not really useful in a capital project fund.

Another example may be when a fund pays off debt early or the debt service payment for the year will far exceed the typical debt service payment (pre-payments). Again, that renders the DSCR of little or no use. Funds that are not operating funds and have only a few annual expenditures or the only expenditures are debt service payments such as the Court Maintenance Fund do not need a DSCR calculated.

Due to these factors, the DSCR is really only a useful tool for the operating funds (Road Fund, Fire Fund, Sewer Fund and Solid Waste Fund). Wakulla County has debt service payments in the following funds:

- Governmental Funds:
  - Road Department Fund – this special revenue operating fund finances the CAT Financial and Deere Credit, Inc., Motor Graders leases and the DSCR has historically been at an acceptable level. In FY16/17 the DSCR was insufficient due to a balloon payment due on the motor graders. The County stopped privatizing the road portion of Public Works in FY18/19 and net income has improved. The five (5) year plan has a number of capital road equipment purchases scheduled for this fund, some of which may be in the form of capital leases. The DSCR for FY21/22 is .31, below the 1.15 goal due to these purchases.

  - One Cent Sales Tax Road Paving Fund – this capital project fund has funded numerous loans for road paving in past years. The current model for this fund plans to pave roads on a “pay-as-you-go” basis, there is no current debt in this fund and no borrowings are expected in the five (5) year plan.

  - One Cent Sales Tax Public Facilities Fund – this capital project fund has funded a number of facility improvements over the years. This fund subsidized the $30 Court Surcharge Fund in its courthouse loan payment. This fund was also used to fund the Fire/EMS Facility on Trice Lane which will mature in FY2027/28. The DSCR ratio, as already mentioned, will vary greatly from year to year and will be negative in years in which large purchases/projects are made.
- Business-type Funds
  - Sewer Fund – this business-type operating fund has financed a number of sewer expansion projects in the past and there are a number of projects scheduled for the future. The DSCR was corrected in FY17/18 with the payoff of several outstanding

loans and refunding them through the USDA loan. As other expansion projects will be necessary in the future, the fee structure of this fund is being changed to ensure proper debt coverage exists. The USDA loan will be repaid beginning in FY2018 through 2057. Note the DSCR for FY21/22 is a negative 1.24. The DSCR ratio will vary greatly from year to year and will be negative in years in which large projects are in progress. Over the next five (5) years, the county will borrow from the line of credit and pay it back using grant funds as they come in.

- Solid Waste Fund – this business-type operating fund finances the Ameris Bank Landfill Closure loan and the DSCR is sufficient at 4.26.

Fund / Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Governmental Funds										
Road Fund - Road Paving & Capital Equipment										
Annual Debt Service Pmt	136,615	34,676	65,174	65,174	647,100	76,795	76,795	76,795	76,795	464,094
Annual Net Income *	272,737	51,124	140,472	284,371	1,742	225,926	962,230	(51,850)	167,609	142,018
DSCR	2.00	1.47	2.16	4.36	0.00	2.94	12.53	-0.68	2.18	0.31
1 Cent Sales Tax Road Paving										
Annual Debt Service Pmt	729,328	482,552	361,468	348,406	85,052					
Annual Net Income *	789,340	825,997	1,315,177	1,020,059	241,559					
DSCR	1.08	1.71	3.64	2.93	2.84					
1 Cent Sales Tax Public Facility - Fire/EMS										
Annual Debt Service Pmt	242,994	242,994	242,994	242,994	242,994	255,746	158,883	155,614	152,543	158,578
Annual Net Income *	333,192	(95,896)	305,539	382,343	297,210	(242,966)	(957,525)	296,454	306,633	(197,477)
DSCR	1.37	-0.39	1.26	1.57	1.22	-0.95	-6.03	1.91	2.01	-1.25
1 Cent Sales Tax Public Safety - Fire/EMS										
Annual Debt Service Pmt									131,427	139,571
Annual Net Income *									729,456	(11,231)
DSCR									5.55	-0.08

Fund / Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Enterprise Funds										
Sewer Fund										
Annual Debt Service Pmt	489,031	499,771	512,259	474,351	582,722		551,456	275,218	275,763	284,951
Annual Net Income *	418,296	276,590	457,547	117,700	218,267	1,398,440	3,803,732	(9,866)	1,174,358	(352,537)
DSCR	0.86	0.55	0.89	0.25	0.37	0.00	6.90	-0.04	4.26	-1.24
Solid Waste Fund										
Annual Debt Service Pmt			90,070	14,772	88,978	87,924	85,824	82,673	82,628	87,943
Annual Net Income *			162,900	209,945	152,338	57,959	243,710	453,878	362,201	374,248
DSCR			1.81	14.21	1.71	0.66	2.84	5.49	4.38	4.26

* Annual net income is net income less transfers in plus transfers out plus debt service pmts or net income before transfers and debt service pmts

Early payoff of debt has been removed for comparison

OTHER POTENTIAL DEBT OBLIGATIONS

1. In 2002 the County guaranteed a loan on behalf of the Senior Citizens Center. The original amount of the loan was $350,000 and was paid off in 2022. The Senior Citizens Center made all scheduled payments.

2. In 2013 the County opened a $2,000,000 line of credit for disaster response / emergency preparation. No monies have been borrowed and only the BOCC may authorize a borrowing after declaring a state of emergency.

3. As noted in the introduction on page 4, the County also has long-term debt in the form of employment benefits. The three (3) primary obligations the County owes are future payouts of

compensated absences, pension obligations (unfunded liability on future payouts of retirement benefits through the Florida Retirement System) and other post-employment benefits (implicit subsidy of health insurance for retirees). The total of these obligations will never be due all at the same time but will be typically paid out over time as they become due as employees leave or retire. Compensated absences are paid out in a lump sum as employees leave the County based on the guidelines of the employee handbook. Retirement benefits are paid as billed by the Florida Retirement System on a monthly basis and other post-employment benefits are paid out as the health insurance is billed by Capital Health Plan (CHP) on a monthly basis. The County has little to no control over these obligations unless the BOCC chooses to change the benefits paid to employees and those changes would only affect new employees.

The long-term debt balances at year end FY21/22 for compensated absences was $1,471,288, $26,541,794 in future pension obligations, and $2,412,547 in other post-employment benefits.

4. As noted in the introduction on page 4, the County also has estimated future liabilities related to the closure and post-closure of the County's landfill. This liability will be paid annually over time to a vendor who monitors the landfill for compliance with Florida Department of Environmental Protection (FDEP) standards. The estimated liability at year end FY21/22 was $821,257.

5. The total debt for the County as of September 30, 2021 according to the annual financial report is $40,580,889 which is $1,170 of debt per Wakulla citizen.

DEBT POLICY

If you have any questions regarding this report, please contact the Finance Director for the Clerk of Court, Steven Baird at 850-926-0349 or sbaird@wakullaclerk.com. If you would like a copy of the County's debt policy visit the County's website at http://www.mywakulla.com/departments/communications_and_public_services/administrative_regulations/index.php.

End of Report