Timing of Capital Investments
May 23, 2017

In my last article, I addressed the cost of borrowing money for Capital Improvements, if the project were to start in 2020 and be used or occupied by 2023. In a recent Roane County News article, we saw that the potential project could be starting in 2018 with a projected occupied date of 2020.

What does it mean from a financial standpoint for the asset to be occupied by 2020? It basically means that Roane County must start repaying our debt obligations in the 2020-2021 budget. As noted in the prior article “Education and Finance”, some of the county’s existing debt is to be paid off by 2023. The cost to the taxpayers will be approximately a 28 cents increase in property tax on a $50 million project, before considering the existing debt payoff.

One may say, why not just pay interest until the existing debt is paid off? The County practiced postponing principal payment (ballooning debt or back loading of debt) in the past. A good example is the Roane County Jail, where $10 million was borrow in 2008. We are making our first annual principal payment this month and it is only $35,000. The practice of back loading or ballooning debt was stopped by the County in 2011, by the adoption of a Debt Management Policy. One could argue that the county can change their policy and once again began the practice of back loading or ballooning debt. Not so quick, the Tennessee General Assembly in 2014 passed what is known as the “Anti-Kicking the Can Act” (TCA 9-21-1) which requires special approval by the Tennessee Comptroller for principal repayments delayed for more than three (3) years from the date of issue. I would not anticipate the Comptroller’s approval, if asked.

So we are back to the practice that one should start repaying the indebtedness principal when you starting using the asset.

The county’s debt policy goes a little farther than the State. The County policy requires the County to levy the tax a year in advance to strengthen the county’s financial position and have enough funds to pay the mid-year interest payment without having to borrow additional funds to pay for the interest. We call that borrowing to pay for borrowing. In other words, by levying the tax a year earlier, the county would be showing the lenders that we are financially strong and have sound financial management practices. Thereby, we would receive lower interest rates on our borrowing and saving more money.

An example of how this works is our current debt fund that would pay for these capital projects, has an available cash balance of $430,000 with annual payments of $325,000. If the county borrows $50 million, our debt payments go to $3 million annually, with a mid-year interest payment of $1 million. With only $430,000 in cash available and a $1 million payment due, the county would be forced to borrow additional money in order to pay the interest payment on the original borrowed funds. This is bad business, thus we levy the tax a year in advance.

Timing is important in planning our capital Improvements. The cost of money is important in planning our capital improvements. The capital assets rendered are important in planning our capital improvements. All that is said to bring us back to trying to get a full understanding of our needs, how we meet these needs and understanding the cost of meeting those needs.

If the County School Board and Commission is looking at a Capital Improvement Plan to use the capital asset by 2020, then the county needs an additional $2.5 to $3 million in revenue by 2018 and this equals approximately 28 cent or 11% increase in property tax for all Roane County taxpayers outside of Oak Ridge. We are currently working on the 2018 Budget.

Other articles about County Government, Education, and Finance are available on the County Website at www.roanecountytn.gov, under the County Executives page, published articles and speeches.