

Capital Purchases over Consecutive Budget Years

District 4 Northeast Texas
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Presentation Overview

- Counties face continuing challenges in meeting their operational obligations in light of property tax limitations imposed by the Legislature.
- Many counties budget on a pay-as-you-go basis and, along with other routine maintenance expenses, fund capital expenditures utilizing M&O tax revenue.
- This presentation explores an alternative means of providing for these capital expenditures while leveling or in some cases reducing the overall ad valorem tax rate and also reducing transactional costs for the County.

Maintenance and Operations vs. Debt Issuance

- Annually, the County adopts a budget to cover spending requirements for the next fiscal year.
- (Usually, October 1 through September 30)



Truth in Taxation Limitations

- Legislature does not set the property tax rates, but the Legislature makes it difficult to increase the tax rate.
- **Effective Rate** = the property tax rate that would give the county the same amount of money that it had for the prior fiscal year.
- **Rollback Rate** = about 8% higher than the operative effective tax rate + required taxes necessary to pay annual debt service [principal and interest] for general obligation debt (G.O. Bonds, Certificates of Obligation, Tax Notes).
- Exceeding the Rollback Rate can trigger a petition to hold an election to roll back the tax rate.

County Needs Good Information on Income Needs

- Salaries and benefits
- Cost of day-to-day operations
- Cost to upkeep/replace county buildings and equipment
- State government mandates
- Contingency
- Adequate reserves



Capital versus Operating Expenditures

- Much of the budget is comprised of operating expenses (salaries, fuel, utilities, supplies).
- Some items may be capital expenditures (vehicles, road repair equipment, road materials, roofs or hvac units, etc.).

What are Capital Expenditures?

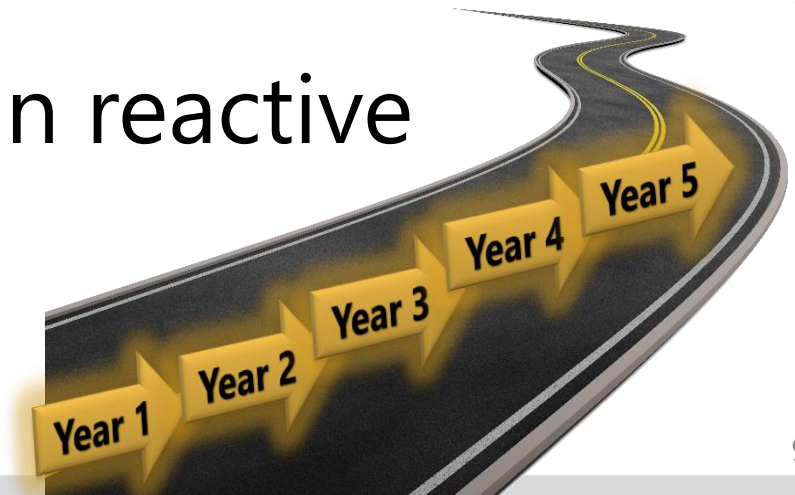
- Expenditures to acquire permanent assets to be used by the County (non-recurring in nature).
- Permanent assets have a useful life that is longer than the current budget year (example: a road grader will last **x** number of years).

Day to Day Spending

- It is important to know what the County will need to keep it going in the area of capital expenditures
 - How to pay for a new fleet of sheriff vehicles
 - How to pay for new roofs on county buildings
 - How to pay for road materials

County Should Have a Good Capital Improvement Plan

- Address capital expenditures for next 5 years – update annually
- Provide a road map for expenditures – anticipate expenditures in advance
- Proactive rather than reactive



Examples Where Capital Improvement Plan Can Help Planning

- Address infrastructure requirements
 - How long will a road last before maintenance is required?
 - How much will deferred maintenance cost?
 - Can preventive maintenance save money?
- Need for new equipment
 - Provide a uniform plan to replace existing equipment during its useful life

Providing For Capital Improvements: M & O vs. Debt

- To address M&O budget needs, a county is limited to only a little increase in tax revenue from the prior year in order to avoid a roll back situation.
- One practical approach – set the tax rate at the maximum amount possible under the roll back trigger: you can always adopt a final rate that is less, but you avoid a roll back situation.

Funding Capital Expenditures – Pay As You Go or Short Term Debt

- The M&O tax does not lend itself to providing much more than what was raised in the prior year, at best an increase of 8% over last year's revenues.
- The County may consider judicious use of issuing debt to fund capital expenditures.

Funding capital expenditures with short term debt allows the County to match the expenditure to the period the asset is used

- Financing a capital asset with a note or other obligation that matches the useful life of the equipment allows for taxpayers to pay for the item when it is being used.
- It also allows the county to reduce the M&O rate or stay within the rollback rate.

Most Frequently Used Debt Instruments

- General Obligation Bonds: requires an election - 40 years maximum maturity
- Certificates of Obligation: no election unless 5% of registered voters petition – 40 years maximum maturity
- Contractual Obligations: no election – limited to personal property (equipment) – 25 years maximum maturity
- Tax Note: no election – maximum maturity 7 years

What About a Financing Lease or Installment Purchase Contract?

- Viable options, but may or may not constitute an obligation that can be classified as a debt for ad valorem tax purposes.
- If characterized as an M&O obligation, no relief from roll back.

Major Construction Projects

- Generally, these cannot be addressed on a pay as you go basis from the M&O tax revenues.
- Debt is required in order to fund the project.

How Long to Finance?

- Tax Notes may be issued for up to seven (7) years
- Each item to be financed may have a different useful life
- Structure the debt service so that items with shorter useful lives are accounted for as being paid off first

How Long to Finance?

Items

Useful Life

Radios

3 Years

Computer Equipment

3-5 Years

Vehicles

5 Years





Road Maintenance Equipment

10 Years

Roof

20 Years

Proposed Financing

<u>Useful Life</u>		<u>Items to Finance</u>	<u>Costs</u>
10 Years		Road Equipment	\$425,000
5 Years		Vehicles	\$295,000
3 Years		Radios	\$105,000
3 Years		Computers	\$155,000
		Total Purchases:	\$948,932
		Cost of Issuance:	\$30,000
		Rounding:	\$1,068
		Total Amount – Tax Note	\$980,000

Your County, Texas

\$980,000 Tax Notes, Series 2016

Total Issue Sources And Uses

	Road Equipment	Vehicles	Radios	Computers	Issue Summary
Sources Of Funds					
Par Amount of Bonds	\$425,000.00	\$295,000.00	\$105,000.00	\$155,000.00	\$980,000.00
Total Sources	\$425,000.00	\$295,000.00	\$105,000.00	\$155,000.00	\$980,000.00
Uses Of Funds					
Costs of Issuance	13,010.20	9,030.61	3,214.29	4,744.90	30,000.00
Deposit to Project Construction Fund	408,920.00	285,012.00	105,000.00	150,000.00	948,932.00
Rounding Amount	3,069.80	957.39	(3,214.29)	255.10	1,068.00
Total Uses	\$425,000.00	\$295,000.00	\$105,000.00	\$155,000.00	\$980,000.00

Your County, Texas

\$980,000.00 Tax Notes, Series 2016



Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/15/2016	-	-	-	-	-
08/01/2017	205,000.00	1.600%	9,843.56	214,843.56	-
09/30/2017	-	-	-	-	214,843.56
02/01/2018	-	-	6,200.00	6,200.00	-
08/01/2018	200,000.00	1.600%	6,200.00	206,200.00	-
09/30/2018	-	-	-	-	212,400.00
02/01/2019	-	-	4,600.00	4,600.00	-
08/01/2019	210,000.00	1.600%	4,600.00	214,600.00	-
09/30/2019	-	-	-	-	219,200.00
02/01/2020	-	-	2,920.00	2,920.00	-
08/01/2020	120,000.00	1.600%	2,920.00	122,920.00	-
09/30/2020	-	-	-	-	125,840.00
02/01/2021	-	-	1,960.00	1,960.00	-
08/01/2021	120,000.00	1.600%	1,960.00	121,960.00	-
09/30/2021	-	-	-	-	123,920.00
02/01/2022	-	-	1,000.00	1,000.00	-
08/01/2022	60,000.00	1.600%	1,000.00	61,000.00	-
09/30/2022	-	-	-	-	62,000.00
02/01/2023	-	-	520.00	520.00	-
08/01/2023	65,000.00	1.600%	520.00	65,520.00	-
09/30/2023	-	-	-	-	66,040.00
Total	\$980,000.00	-	\$44,243.56	\$1,024,243.56	-

Your County, Texas

\$980,000.00 Tax Notes, Series 2016

ROAD EQUIPMENT PURPOSE



Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/15/2016	-	-	-	-	-
08/01/2017	60,000.00	1.600%	4,268.89	64,268.89	-
09/30/2017	-	-	-	-	64,268.89
02/01/2018	-	-	2,920.00	2,920.00	-
08/01/2018	60,000.00	1.600%	2,920.00	62,920.00	-
09/30/2018	-	-	-	-	65,840.00
02/01/2019	-	-	2,440.00	2,440.00	-
08/01/2019	60,000.00	1.600%	2,440.00	62,440.00	-
09/30/2019	-	-	-	-	64,880.00
02/01/2020	-	-	1,960.00	1,960.00	-
08/01/2020	60,000.00	1.600%	1,960.00	61,960.00	-
09/30/2020	-	-	-	-	63,920.00
02/01/2021	-	-	1,480.00	1,480.00	-
08/01/2021	60,000.00	1.600%	1,480.00	61,480.00	-
09/30/2021	-	-	-	-	62,960.00
02/01/2022	-	-	1,000.00	1,000.00	-
08/01/2022	60,000.00	1.600%	1,000.00	61,000.00	-
09/30/2022	-	-	-	-	62,000.00
02/01/2023	-	-	520.00	520.00	-
08/01/2023	65,000.00	1.600%	520.00	65,520.00	-
09/30/2023	-	-	-	-	66,040.00
Total	\$425,000.00	-	\$24,908.89	\$449,908.89	-

Your County, Texas

\$980,000.00 Tax Notes, Series 2016

VEHICLES PURPOSE



Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/15/2016	-	-	-	-	-
08/01/2017	60,000.00	1.600%	2,963.11	62,963.11	-
09/30/2017	-	-	-	-	62,963.11
02/01/2018	-	-	1,880.00	1,880.00	-
08/01/2018	55,000.00	1.600%	1,880.00	56,880.00	-
09/30/2018	-	-	-	-	58,760.00
02/01/2019	-	-	1,440.00	1,440.00	-
08/01/2019	60,000.00	1.600%	1,440.00	61,440.00	-
09/30/2019	-	-	-	-	62,880.00
02/01/2020	-	-	960.00	960.00	-
08/01/2020	60,000.00	1.600%	960.00	60,960.00	-
09/30/2020	-	-	-	-	61,920.00
02/01/2021	-	-	480.00	480.00	-
08/01/2021	60,000.00	1.600%	480.00	60,480.00	-
09/30/2021	-	-	-	-	60,960.00
Total	\$295,000.00	-	\$12,483.11	\$307,483.11	-



Your County, Texas

\$980,000.00 Tax Notes, Series 2016

RADIOS PURPOSE



Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+i	Fiscal Total
12/15/2016	-	-	-	-	-
08/01/2017	35,000.00	1.600%	1,054.67	36,054.67	-
09/30/2017	-	-	-	-	36,054.67
02/01/2018	-	-	560.00	560.00	-
08/01/2018	35,000.00	1.600%	560.00	35,560.00	-
09/30/2018	-	-	-	-	36,120.00
02/01/2019	-	-	280.00	280.00	-
08/01/2019	-	-	280.00	35,280.00	-
09/30/2019	35,000.00	1.600%	280.00	35,280.00	-
02/01/2020	-	-	-	-	35,560.00
Total	\$105,000.00	-	\$2,734.67	\$107,734.67	-

Your County, Texas

\$980,000.00 Tax Notes, Series 2016

COMPUTERS PURPOSE



Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/15/2016	-	-	-	-	-
08/01/2017	50,000.00	1.600%	1,556.89	51,556.89	-
09/30/2017	-	-	-	-	51,556.89
02/01/2018	-	-	840.00	840.00	-
08/01/2018	50,000.00	1.600%	840.00	50,840.00	-
09/30/2018	-	-	-	-	51,680.00
02/01/2019	-	-	440.00	440.00	-
08/01/2019	55,000.00	1.600%	440.00	55,440.00	-
09/30/2019	-	-	-	-	55,880.00
02/01/2020	-	-	-	-	-
Total	\$155,000.00	-	\$4,116.89	\$159,116.89	-

Financing Structure for Items' Useful Life

Year 1

Year 2

Year 3

Year 4

Year 5

Year 6

Year 7

Your County, Texas
\$980,000.00 Tax Notes, Series 2016

COMPUTERS PURPOSE

Debt Service Schedule

Date	Principal	Coupon
12/15/2016		1.600
08/01/2017		1.600
09/30/2017		1.600
02/01/2018		1.600
08/01/2018		1.600
09/30/2018		1.600
02/01/2019		1.600
08/01/2019		1.600
09/30/2019		1.600
02/01/2020		1.600
Total	\$155,000.00	



Your County, Texas
\$980,000.00 Tax Notes, Series 2016

RADIOS PURPOSE

Debt Service Schedule

Date	Principal	Coupon
12/15/2016		1.600
08/01/2017		1.600
09/30/2017		1.600
02/01/2018		1.600
08/01/2018		1.600
09/30/2018		1.600
02/01/2019		1.600
08/01/2019		1.600
09/30/2019		1.600
02/01/2020		1.600
Total	\$105,000.00	



Your County, Texas
\$980,000.00 Tax Notes, Series 2016

VEHICLES PURPOSE

Debt Service Schedule

Date	Principal	Coupon
12/15/2016	-	
08/01/2017	60,000.00	1.600
09/30/2017	-	
02/01/2018	-	
08/01/2018	-	1.600
09/30/2018	-	
02/01/2019	-	
08/01/2019	-	1.600
09/30/2019	-	
02/01/2020	-	
08/01/2020	60,000.00	1.600
09/30/2020	-	
02/01/2021	-	
08/01/2021	60,000.00	1.600
09/30/2021	-	
Total	\$295,000.00	



Your County, Texas
\$980,000.00 Tax Notes, Series 2016

ROAD EQUIPMENT PURPOSE

Debt Service Schedule

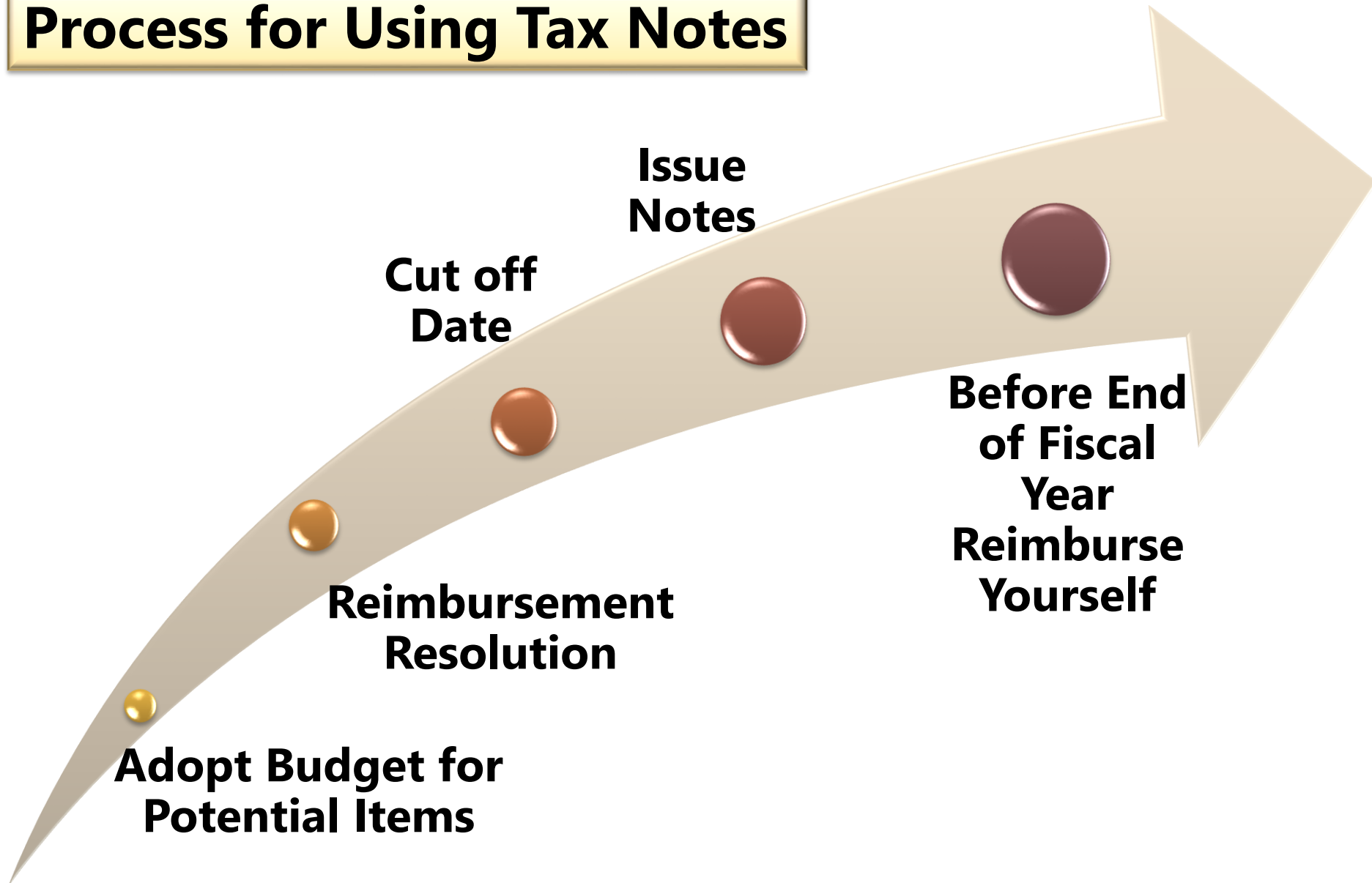
Date	Principal	Coupon
12/15/2016	-	
08/01/2017	60,000.00	1.600
09/30/2017	-	
02/01/2018	-	
08/01/2018	60,000.00	1.600
09/30/2018	-	
02/01/2019	-	
08/01/2019	60,000.00	1.600
09/30/2019	-	
02/01/2020	-	
08/01/2020	-	1.600
09/30/2020	-	
02/01/2021	-	
08/01/2021	-	1.600
09/30/2021	-	
02/01/2022	-	
08/01/2022	60,000.00	1.600
09/30/2022	-	
02/01/2023	-	
08/01/2023	65,000.00	1.600
09/30/2023	-	
Total	\$425,000.00	



Two Approaches to Using Tax Notes

- Determine projected needs and issue Tax Note to fund needs
 - Sell Note and fund projects.
- Pass a Reimbursement Resolution
 - Include all items the County may need in the coming year.
 - Use reserves to make purchase, then sell Tax Note at the end of the year to reimburse the General Fund and/or Road and Bridge Fund before the end of the fiscal year.

Process for Using Tax Notes



Special Budget Adopted for Debt Issue

- Section 111.015, Texas Local Government Code requires that the County adopt a budget for expenditures from debt issues.
- This is in addition to the adoption of a regular county budget.

Examples of What Items to Include in a Reimbursement Resolution

- Construction & improvements of roads and bridges in the county
- Acquisition of road right-of-way
- Acquisition of real property
- Construction of improvements to county buildings
- Construction of a county building



Examples of What Items to Include in a Reimbursement Resolution

- Acquisition of road maintenance equipment
- Acquisition of public safety equipment
- Acquisition of vehicles
- Acquisition of office furnishings and equipment
- Acquisition of computer equipment and software

Items to be Covered in Reimbursement Resolution

- Need to designate source of funds to be used
 - Most often the General Fund is used most often as the source
 - May use Road & Bridge Fund or a combination of General Fund and Road & Bridge Fund

- Unless you know exactly what will be needed, keep the list general.
- For instance, “**vehicles**” can include sheriff patrol cars, pickup trucks, and general purpose vehicles.



Issue the Notes No Reimbursement

- Sell Notes before end of the Fiscal Year



Issue the Notes With Reimbursement Resolution

- Sell and close before end of Fiscal Year
- Must reimburse so funds are replenished for audit process
- Otherwise a deficit in fund balance will result

Tax Note Program

- Counties may structure a note program over time, annually evaluating each budget for qualifying expenditures and determining the amount of such expenditures to transfer to the I&S side.
- Working with their financial advisor, the County can determine the amount of anticipated valuation increase, the amount of debt service being retired each year, and the required amount to be funded and calculate an appropriate level of capital expenditure to be funded from the I&S levy versus the M&O levy.

Summary

- **The County can match the cost of capital assets to the time period when they are used.**
- **Funding capital assets through short term notes or COs relieves pressure on the M&O tax rate and may help the County stabilize or in some cases reduce the overall tax burden.**
- **Combining capital asset acquisitions will help the county reduce the costs of financing such purchases and may be cheaper than leasing.**

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