

# Funding County Government

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# 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

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- 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





# County Should Have a Good Capital Improvement Plan

- Address capital expenditure 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

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- 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 Capital Improvements: M & O vs. Debt

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- To address next year's expenditures, a county is limited to only a little increase in tax revenue from the prior year in order to avoid a roll back situation.
- 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



# **Does The County Need To Increase Tax Revenues To Fund Capital Expenditures?**

- 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
- Need additional revenues – consider judicious use of issuing debt to fund capital expenditures.



# Most Frequently Used Debt Instruments

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- 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 person 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

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

# Day to Day Spending

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- 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

# How Long to Finance?

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- 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?

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## 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
		<b>Total Amount – Tax Note</b>	<b>\$980,000</b>

## Your County, Texas

\$980,000 Tax Notes, Series 2016

### Total Issue Sources And Uses

	Road Equipment	Vehicles	Radios	Computers	Issue Summary
<b>Sources Of Funds</b>					
Par Amount of Bonds	\$425,000.00	\$295,000.00	\$105,000.00	\$155,000.00	\$980,000.00
<b>Total Sources</b>	<b>\$425,000.00</b>	<b>\$295,000.00</b>	<b>\$105,000.00</b>	<b>\$155,000.00</b>	<b>\$980,000.00</b>
<b>Uses Of Funds</b>					
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
<b>Total Uses</b>	<b>\$425,000.00</b>	<b>\$295,000.00</b>	<b>\$105,000.00</b>	<b>\$155,000.00</b>	<b>\$980,000.00</b>

## 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
<b>Total</b>	<b>\$980,000.00</b>	<b>-</b>	<b>\$44,243.56</b>	<b>\$1,024,243.56</b>	<b>-</b>



**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
<b>Total</b>	<b>\$425,000.00</b>	<b>-</b>	<b>\$24,908.89</b>	<b>\$449,908.89</b>	<b>-</b>

**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
<b>Total</b>	<b>\$295,000.00</b>	<b>-</b>	<b>\$12,483.11</b>	<b>\$307,483.11</b>	<b>-</b>





**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	35,000.00	1.600%	280.00	35,280.00	-
09/30/2019	-	-	-	-	35,560.00
02/01/2020	-	-	-	-	-
<b>Total</b>	<b>\$105,000.00</b>	<b>-</b>	<b>\$2,734.67</b>	<b>\$107,734.67</b>	<b>-</b>



**Your County, Texas**

**\$980,000.00 Tax Notes, Series 2016**

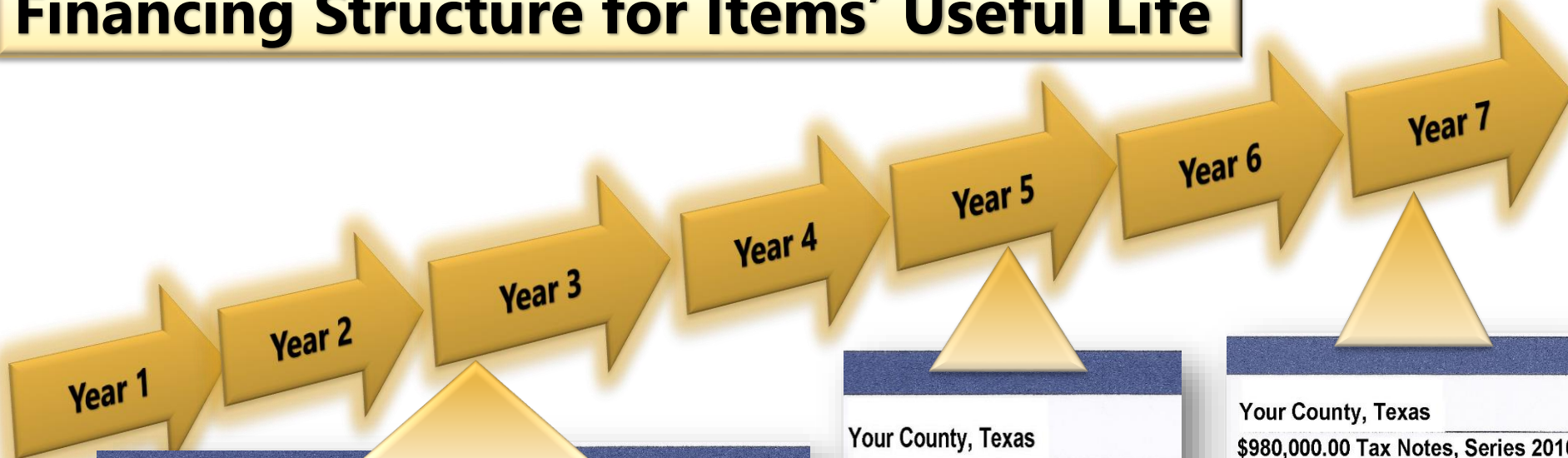
**COMPUTERS PURPOSE**



**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	-	-	-	-	-
<b>Total</b>	<b>\$155,000.00</b>	<b>-</b>	<b>\$4,116.89</b>	<b>\$159,116.89</b>	<b>-</b>

# Financing Structure for Items' Useful Life



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
<b>Total</b>	<b>\$155,000.00</b>	

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
<b>Total</b>	<b>\$105,000.00</b>	

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		1.600
02/01/2019		1.600
08/01/2019		1.600
09/30/2019		1.600
02/01/2020		1.600
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	-	-
<b>Total</b>	<b>\$295,000.00</b>	

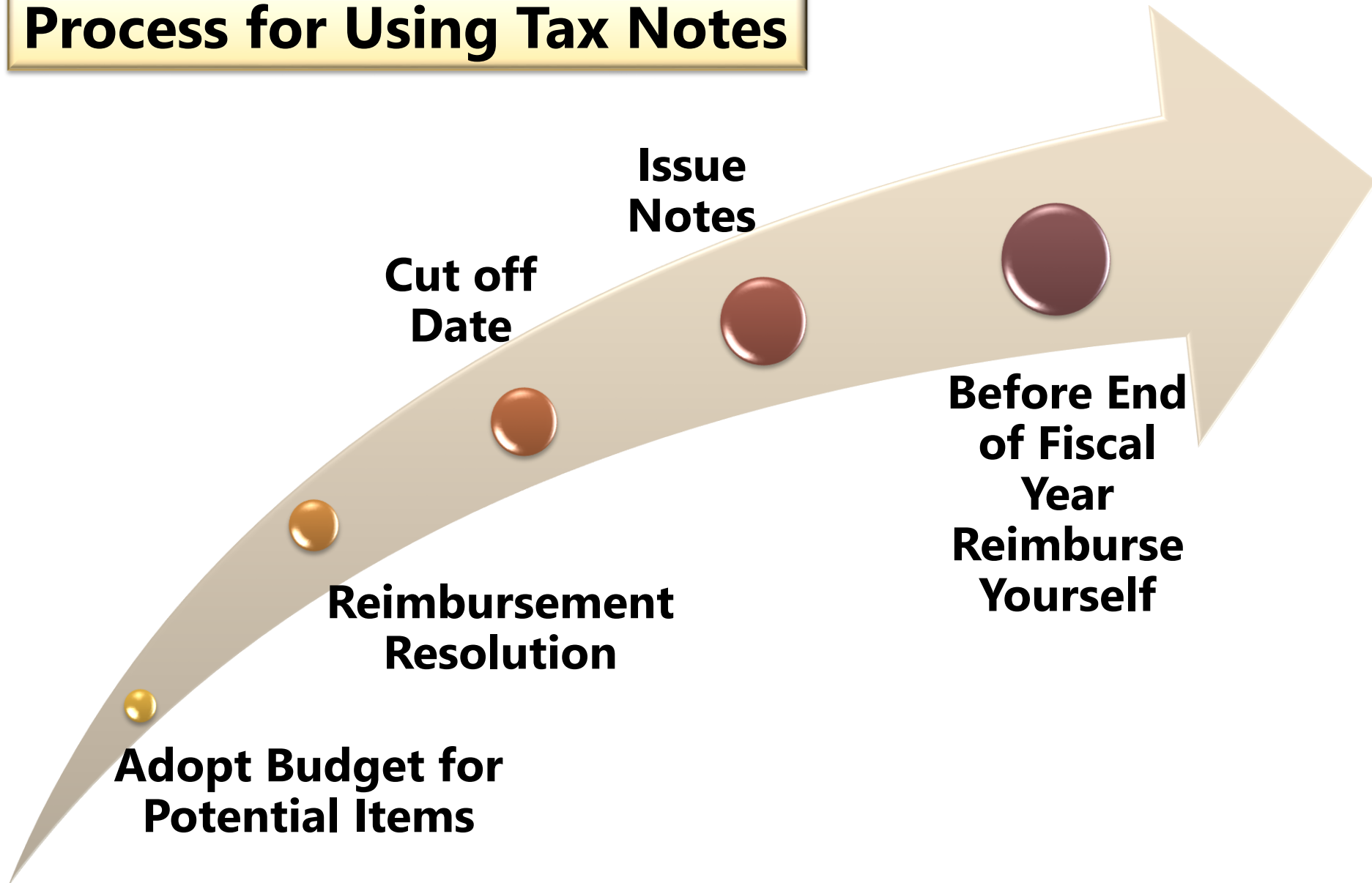
Your County, Texas		
\$980,000.00 Tax Notes, Series 2016		
ROAD EQUIPMENT PURPOSE		
Debt Service Schedule		
Date	Principal	Coupon
12/15/2016	-	-
08/01/2017	60,000.00	1.600
09/30/2017	-	-
02/01/2018	-	-
08/01/2018	60,000.00	1.600
09/30/2018	-	-
02/01/2019	-	-
08/01/2019	60,000.00	1.600
09/30/2019		1.600
02/01/2020		1.600
08/01/2020		1.600
09/30/2020		1.600
02/01/2021		1.600
08/01/2021	-	-
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	-	-
<b>Total</b>	<b>\$425,000.00</b>	

# Two Approaches to Using Tax Notes

- Determine projected needs and 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

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- 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 use the General Fund 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

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- Sell Notes before end of the Fiscal Year



# **Issue the Notes With Reimbursement Resolution**

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- 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





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Tom counsels local government clients on various aspects of local government law. He acts as bond, issuer's and underwriter's counsel in public finance transactions, and he negotiates, documents, and arranges financing and refunding for public sector projects using both traditional public debt and alternative financing mechanisms including privatization.

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A portrait of David Méndez, a middle-aged man with a grey beard and mustache, wearing a dark suit, white shirt, and a striped tie. He is seated in front of a large window that looks out onto a cityscape with green hills and a bridge. The text is overlaid on the left side of the image.

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David practices in the areas of public law, elections, public finance, and school law. He represents public entities, including municipalities, counties, school districts, higher education institutions, and special districts in public finance, elections, water and open meetings and open government issues.

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