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Managing Your County's Debt

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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Reference Number: CTAS-1764

Develop a Capital Projects Improvement Plan and Budget

Reference Number: CTAS-1765

One of the first steps in developing the most efficient Debt Management plan is to have in place a Capital Projects Plan, also known as Capital Improvement Plan(CIP) or Capital Outlay Budget, that includes the related budget. However, a Capital Projects Plan is not required in starting a good debt management program. The Capital Project Plan assists the county leaders in understanding their current capital assets, the replacement schedule of those assets, as well as future needs that have been identified. The Capital Project Plan should entail a project or project(s) budget with implementation dates and funding needs to be fulfilled by use of savings, annual revenues or the issuance of debt. One should be aware of whether the cost of the debt issuance will be included in the funds requested to be borrowed, and whether interest earned on idle funds will accrue to the debt service fund or capital project fund.

For more information, see Basic Steps of Establishing a CIP and Policy Considerations under the Capital Budgets topic.

Recommended Practice: Development of a Capital Project/Improvement Plan and Budget

Develop a Multi-Year Debt Budget

Reference Number: CTAS-1766

In order to have an efficient Debt Management program, the county should develop a multi-year debt budget for all the related debt service funds the county manages. The budget should include the most recent prior year's audit, the current year's operation and then extend annually until the final payments are made on the county's remaining debt. The budget will become a useful tool in analyzing the needed revenue to support the existing debt obligations. The budget should reflect revenues, expenditures and fund balances over the term of the county indebtedness. The fund balance can then be monitored to see if this balance is consistent with the county fund balance policy, if one exists. The fund balance, upon reaching an optimal level, can then be maintained by showing an adjusted property tax rate each year. Even though a county may have other revenue sources that support the debt service funds, the property revenue estimate is the ultimate benchmark of activity. If revenue is shifted from another fund, there is still a cost of the indebtedness that is best measured by the property tax levied.

In developing a multi-year debt budget, the county will gain a better understanding of its current outstanding debt and the debt instruments (interest rates, projects, when the debt was originally issued and whether the debt has been refunded). By reviewing your multi-year debt budget, you will begin to understand future available debt capacity or a potential future debt financial crisis. The Multi-Year Budget must be viewed in conjunction with the Capital Budget and future borrowing should be planned accordingly.

Sample county multi-year debt budget. From this sample multi-year debt budget, Sample County Debt is created reflecting the tax rate overtime with the existing debt, along with adding $14 million bonds straight-line amortized. We can draw a number of conclusions from our exhibits and graphs:

1. In the near future, the county is paying off most of its existing debt.
2. Adding $14 million, even with paying off existing debt, will create a need for additional revenue.
3. Based on the existing debt being paid off in the next few years, there is an opportunity for wrapping some debt to level out debt service payments and thus debt tax.
4. With the existing debt expenditures being paid off in the near future, the county should review any debt for short term, lower cost items. If these are recurring (purchase on vehicles, roof repairs, etc.), they should take the opportunity with the potential debt tax reduction to transfer the tax to a capital projects fund and begin paying for the items annually; therefore not issuing debt for these recurring low cost, short-lived assets.

Recommended Practice: Development of a Multi-Year Debt Budget

Recommended Practice: Development of a Fund Balance Policy for the Debt Service Funds

Determine Your Current Debt Position -Statistics and Ratios

Reference Number: CTAS-1767

In order to have an efficient Debt Management program, you should have an understanding and working knowledge of your current debt position. Various ratios will be used in determining or measuring your debt capacity. Comprehension of the ratios should assist the local government in the following ways: (1) understanding whether your debt will have an acceptable rating by the debt rating agencies, and (2) determining whether the citizens have the ability to pay for the future indebtedness.

Debt Per Capita Ratio – This ratio is used in evaluating the county's ability to pay off its debt by taking the total principal on outstanding debt divided by the citizens in the county.

Total debt of a County[1] *= Debt per capita*
County's population[2]

The overall net debt per capita should not exceed $1,200 per capita nationally.[3]

Debt as a Percentage of Personal Income– This ratio incorporates an ability to pay concept into the assessment of debt burden. It uses the total personal income (including wages, dividends, interest, rent, and government payments) divided by the total population.

Total personal income[4] *= Per capita personal income*
County's population[5]

The overall net debt per capita should not exceed 15% of per capita personal income.[6]

Debt to Assessed Property Value – This ratio examines the county's current indebtedness to the assessed property value. It shows the wealth available to support present indebtedness so the county can include any planned debt to calculate an anticipated ratio, thus helping determine whether the county has capacity to meet present and future obligations.

Total debt of a County *= Debt to assessed value*
Assessed property Value

(Property assessor plus public utilities from Trustee's office)

The overall net debt should not exceed 10 percent of assessed value.[7]

These ratios are a benchmark of your county as monitored by the bond rating agencies. All three ratios must be considered along with other economic and financial data for the county, region and state. Further the agencies review your annual audits and the quality of management in determining your overall rating.

Statistical Reference

As of June 2010, the following data is being provided to allow the reader to have reference of the debt or potential need for capital improvement in county governments throughout Tennessee. See the Debt by County Table for various calculated ratios.The information provided in this table is believed to be accurate, but you should verify and research the most current available data for a final determination related to your county.

Further summary of data

- The highest debt county is Davidson County at more than $2 billion.
- The lowest debt county is Van Buren County at $1 million.
- Davidson County's debt per capita is over $3,445.
- Van Buren County's debt per capita is $200.
- Of the 95 counties in Tennessee, Giles, McMinn, and Tipton Counties are the only that are debt free.

According to the Tennessee Advisory Commission on Intergovernmental Relation "Building Tennessee's Tomorrow: Anticipating the State's Infrastructure Needs July 2009 through 2014," the outstanding capital needs are $37.5 billion or $6,075 per capita.

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[1] Only the principle amount from the county’s most recent annual audit report or financial statement.
[2] U.S. Census or TACIR

[3]“Municipal Benchmarks: Assessing Local Performance and Establishing Community Service Standards”, David N. Ammons. – 2001, p. 119.
[4] Bureau of Economic Analysis (BEA)
[5] U.S. Census or TACIR
[6] Municipal Benchmarks: Assessing Local Performance and Establishing Community Service Standards, David N. Ammons. – 2001, p.119.
[7] Municipal Benchmarks: Assessing Local Performance and Establishing Community Service Standards, David N. Ammons. – 2001, p.119.

Find Out your Debt Rating

Reference Number: CTAS-1768

County governments in Tennessee are predominately rated by Moody’s Investor Services and Standard and Poor’s (S&P). A summary of the ratings are as follows**:**

> *Moody’s* - Investment grade has 10 grades, ranging from a high of “Aaa,” “Aa1,” “Aa2,” “Aa3” to a low of “Baa3.” Any rating less than a “Baa” is considered speculative; a “C” rating is default.
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> *Standard and Poor’s* - Investment grade has only four grades, from high to low: “AAA,” “AA,” “A,” and “BBB.” Any rating lower is considered non-investment grade; a “D” rating is default.

Your county’s last rating will be provided on your last debt instrument. Any future rating will be provided prior to the debt being issued.

Establish a Debt Service Payment Calendar

Reference Number: CTAS-1769

For your accounting department’s management of existing debt, a Debt Service Payment Calendar should be developed. This calendar will assist the accounting department by insuring that the correct debt payments are being made on time, to the right debt holder and in the correct amount. Situations have occurred in counties where debt payments have been late and paid twice to the same debt holder. These problems of payments are due to a lack of internal control related to the payment of the debt obligations. It is highly recommended that a Debt Service Payment Annual Calendar be established. See sample Debt Service Payment Calendar.

Recommended Practice: Establishment of a Debt Service Payment Calendar

The county should also have a debt payment schedule for the duration of debt payments. This is used to reconcile with the annual calendar, annual debt budget and multi-year budget. Figure 13 is a sample of a payment schedule for the duration of the debt.

	Gov't. Improv. Bond, Series II-D-1 Issued October 1, 1996 $10,000,000		G.O. Bond, Series 2005 Issued June 30, 2005 $15,000,000		Solid Waste Disposal Issued July 14, 2006 $200,000		School Refunding Bonds, Series 2001 Issued June 30, 2001 $10,000,000		
F/Y	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2008	-	$496,000	$475,000	$683,500	$65,000	$6,278	-	$500,000	$2,225,778
2009	-	496,000	500,000	659,750	70,000	3,255	-	500,000	2,229,005
2010	-	496,000	525,000	634,750			-	500,000	2,155,750
2011	-	496,000	550,000	608,500			-	500,000	2,154,500
2012	-	496,000	575,000	581,000			-	500,000	2,152,000
2013	-	496,000	600,000	552,250			-	500,000	2,148,250
2014	-	496,000	625,000	522,250			-	500,000	2,143,250
2015	-	496,000	675,000	491,000			-	500,000	2,162,000
2016	-	496,000	700,000	457,250			-	500,000	2,153,250
2017	-	496,000	725,000	422,250			$1,450,000	500,000	3,593,250
2018	-	496,000	775,000	386,000			1,530,000	427,500	3,614,500
2019	$1,485,000	496,000	825,000	347,250			1,615,000	351,000	5,119,250
2020	1,970,000	422,344	850,000	306,000			1,705,000	270,250	5,523,594
2021	2,070,000	324,632	900,000	263,500			1,800,000	185,000	5,543,132
2022	2,180,000	221,960	950,000	218,500			1,900,000	95,000	5,565,460
2023	2,295,000	113,832	1,000,000	171,000					3,579,832
2024			1,050,000	121,000					1,171,000
2025			1,100,000	68,500					1,168,500
2026			270,000	13,500					283,500
Total	$10,000,000	$7,034,768	$13,670,000	$7,507,750	$135,000	$9,533	$10,000,000	$6,328,750	$54,685,801

Figure 13

Source URL: *https://www.ctas.tennessee.edu/eli/managing-your-countys-debt*