County borrowing reaches limit

By MARK HICKS • The Leaf-Chronicle • November 17, 2008

Last month, county commissioners voted down a resolution to begin the process of renovating Montgomery Central High School, primarily because the county can't borrow the money for the project.

Without earmarking more revenue to repay the county's outstanding $314 million , borrowing $15 million to $20 million more that is needed to revamp the 1960s-era school was not possible.

Despite the appearance that county finances might not up to par, it's more like the county has reached the limit on its credit card. Thus, with the current balance, no more money can be borrowed.

"That's what we've been advised," said County Mayor Carolyn Bowers, referring to recommendations from financial advisers. "We're in that critical situation right now."

The debt

Montgomery County currently has approximately $314 in debt. Of that amount, about 70 percent is schools related while the other 30 percent is tied to county services and facilities.

"We are mandated by state law to fund public education," said Bowers. "We do have a lot of services that are mandated by the state that the county is required to provide."

Such services include public safety like the Sheriff's Office, the Emergency Medical Service and animal control; a court system, which includes a circuit court clerk's office; the county clerk's office; and Constitutional offices like the register of deeds, assessor of property and trustee.

And while Montgomery County has a volunteer fire service, county government pays for its equipment and vehicles.

"That 30 percent of our total debt is for county facilities, and much of it was brought on by the tornado in 1999 (that heavily damaged or destroyed many downtown county buildings," said Erinne Hester, the county's director of accounts and budgets.

The jail addition, establishing a "work house" for the jail, the emergency operations center, the animal control shelter and the public library are some county facilities that are part of the debt.

While much of the recovery was paid for with insurance money and cash from the Tennessee Emergency Management Agency adn the Federal Emergency Management Agency, the county still incurred some costs.

"I think we can say we are in better shape as far as the facilities go for the county than we were before the tornado in 1999," Bowers said. "But we are still paying debt service on some of it."

The $31 million Courts Complex, rebuilding the historic courthouse and locating offices displaced from downtown to Veterans Plaza were some of the major post-tornado projects.

Next month, county officials expect to open Civic Hall at Veterans Plaza, which will serve as a replacement for a similar facility that was damaged in the tornado.

"I think that will be a facility that people can be proud of and the community will use similar to the way it was used before, only it will be enhanced,"

Bowers said.

On the schools' side of the ledger, the debt has been incurred from "renovating facilities that are aging" and providing new schools for a growing community, Hester said.

Bowers said the county's school enrollment has increased more than 14 percent since 2000, in numbers of 300 to 500 more students each year.

She said a significant amount of money recently through bond issues have been school related. A total of $60 million has been borrowed to build a new high school and elementary school, and another $18.5 million was borrowed to purchase land for the so-caled "megasite" industrial park.

"That's about $80 million we have borrowed without increasing any commitment of tax dollars to our debt service," Bowers said.

Debt service

The county's account is set up to hold money for an annual payment on its debts.

Hester put it in terms of personal finance.

"That would be like having a separate savings account where every month you would take part of your paycheck and set it aside in the savings

account. And set aside enough that you are going to be able to repay that obligation," she said.

Primarily property tax revenues are placed in the debt service account. Of the $3.14 property tax rate, goes to the debt service fund.

With a penny of the tax rate valued at $246,500, the earmark equates to just more than $21 million this year for debt service.

Other revenue from the local sales tax, adequate facilities tax and a litigation tax is also funneled into debt service.

Hester said the litigation tax, which recently was increased to $50, was approved to be used to retire debt on bonds that pay for construction related to jails. In Montgomery County's case, the fees will go toward the debt of the $20 million jail expansion and building the jail's work house on Highway Drive.

Payments from the debt service are made annually.

County Trustee Brenda Radford characterizes herself as the "county banker." Her office makes the debt payments, as well as collects the taxes that are directed to various departmental accounts, including debt service.

"I have to make sure the fund balance (in the debt service account) is enough to make those payments," she said.

Radford and her staff have been diligent to collect all the property tax due the county. So far, 99 percent of 2006 taxes have been collected and 97 percent of 2007 property taxes are in the coffers, she said.

"We encourage residents to pay their property taxes," Radford said. "That's how they can help keep the wheels turning on the sheriff's vehicles and the school buses rolling."

Borrowing options

States, counties and cities can issue, which are simply a loan with different terminology. The issuer is the borrower, and the bond holder is the lender. The issuer owes the holder a debt and is obligated to repay the principal interest at a later date, or at maturity.

Bonds enable the issuer to finance long-term investments.

A determines the credit worthiness of a government, and it equates to a person's credit rating or credit score.

The county's bond rating was raised to AA-3 in 2007 when $18.5 million was borrowed to buy the megasite property. An evaluation was performed by Moody's Investors Service that looked at factors such as the current debt, current total expenditures, cash on hand, the current budget and the anticipated budget, the county's top 10 taxpayers, as well as the local economy.

The county's financial adviser, Tom McAnulty, of Stephens Inc., said at the time Montgomery County saved about $1 million in interest on the loan because of the county's high bond rating.

"If you put yourself in a position to go out and borrow, and you have too much debt, … when they evaluate it, then your bond rating is going to be lower, so it's going to cost you more interest to borrow," Bowers said.

According to Moody's report, "The county ran a $6.38 million operating surplus in fiscal 2007, driven by and particularly strong local taxes and fees. General Fund balance grew to $16.15 million (a healthy 30.2 percent of General Fund revenues) in fiscal 2007."

While the rating and financial standing are superior, the debt and static amount earmarked for debt service hobbles any further borrowing.

Short-term capitol outlay notes are a borrowing option when the amount needed doesn't require a bond issue. The county will use such a loan to buy school buses for next year.

Another alternative is bond anticipation notes, which is repaid when bonds are issued.

"You are essentially borrowing money from yourself," Hester said.

These notes generally are repaid in three years rather than the long-term pay-back of bonds. They are used to purchase items like vehicles and school buses.

"It doesn't make sense to pay for something longer than you have the ability to use it," Hester said.

Making money with money

Rather than allowing the county's cash to sit in an account until its needed, Radford invests some of the reserves, which produces . It is a practice Bowers started when she was trustee.

Between September 2006 and August 2008, just less than $12.9 million of interest has been generated from Radford's investments. The money helps keep property taxes from rising, she said.

During a comparable period from 2004 to 2006, a total of $6.7 million investment income was received, and in the same months from 2002 to 2004 the figure was $2.8 million.

For the 2006-07 fiscal year, $7.4 million investment income was brought in, which equates to about 33 cents on the tax rate. In real terms, it means a homeowner with a $100,000 home pays $785 property tax at the current $3.14 rate. Without the added investment income, the homeowner would have to pay $83.40 more, Radford said.

She said the recent economic downturn is causing some reduced returns on investments, but she's optimistic the impact can be minimized.

"We will continue to seek the highest and best interest rate for our investments to help offset any possible tax rate increase in 2009," she said.

Bowers also acknowledged the loss.

"The investment income, we don't look to be as significant in the year ahead as it has been in the past," she said. "So that's a loss of revenue for the county."

In addition to falling interest rates, because the County Commission used reserve money to balance the current budget, "you don't have as much money there drawing interest," Bowers added.

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