

**Position Statement: Purchase of Replacement Scheduled Capital Assets:**

**Goal:** To continue the process of migrating into a Capital Projects and Debt Management Plan/Policy by beginning to purchase certain replacement scheduled capital assets without borrowing.

**Objective:** To purchase replacement scheduled assets such as computers, vehicles and certain capital assets that are not large ticket items without borrowing

Our office is in the process of developing a Capital Projects Plan/Policy and Debt Management Plan/Policy, but in the interim we must start the process by focusing on immediate issues that eventually will be encompassed in the overall program under development. As we formulate our Capital Projects and Debt Management Plans/Policies, we are taking a position on the county purchase of scheduled and replacement assets.

Items that would be considered scheduled replacement assets:

1. Computers
2. Radios
3. Sheriff's Patrol Cars
4. Ambulances
5. School Buses

**Background:**

- **Computers/Radios:** Roane County had historically purchased computers/radios from operations but within the last number of years began the program of issuing capital outlay notes for these assets. Some of these notes appear to be re-funded with longer term notes and as such, it is speculated that some debt could now exceed the asset's useful life. Our position is to no longer issue debt on computer and radio replacements and never issue debt for longer than an asset's useful life.
- **Sheriff's patrol cars:** The Sheriff's patrol cars have been purchased from operations, capital outlay notes, and in more recent years, on lease agreements. Our position is that lease agreements to purchase scheduled replacement assets should never be used and in reviewing the Roane County audit over a number of years, the imputed interest rates on leases have always exceeded the going interest rates on traditional loans available to county governments. Further, since a set number of Sheriff's patrol cars are replaced each year, the county should develop a financial position and policy that these assets are purchased either from operations or a capital fund and no debt be issued to purchase these assets.
- **Ambulances:** Ambulances have been purchased from both operations and capital outlay notes in the past. Since ambulances costs and service rates are set as a part of the Ambulance Operations Budget, sufficient funds should be available to purchase ambulances from operations.

- **School Buses:** School Buses have been purchased using three-year capital outlay notes since at least in the early 80's. This practice was due to: (1) the county operated a transportation system for both the Roane County Schools and the Harriman City Schools, and (2) the county could issue capital outlay notes and have a county-wide property tax to repay this indebtedness, but proceeds of the original debt issuance did not have to be shared with the Oak Ridge City School System.

Changes to this practice of operating and financing school buses changed the reasoning, logic, and the need to purchase school buses by capital outlay notes. What changed was: (1) Harriman City School System became a part of the Roane County School System, and (2) a local Chancellor ruled that future issues of capital outlay note proceeds would have to be shared with a city school system. The financial and operational reasoning for capital outlay notes issued now does not exist.

#### **Positions:**

**First:** The least expensive of the above listed assets are computers and radios. Our position is that these replacement assets should be purchased from general operations without debt obligation.

**Second:** Scheduled vehicles that are purchased infrequently should have money set aside allowing the vehicles to be purchased without debt obligation either in the normal operating budget or in a capital budget.

**Third:** Large dollar amount purchased assets such as any group of Sheriff's patrol cars, ambulances, and school buses should have a replacement schedule and either be purchased from operating budgets or capital budgets. The revenue and expenses should be scheduled, thus no debt is issued for these assets.

**Fourth:** Our position is that any debt should not exceed an asset's useful life.

**Fifth:** Our position is that lease agreements for the purchase of assets should not be used.

**Sixth:** Our position is that we should work to stop the practice of "rolling debt".

#### **The Problem – "Rolling Debt":**

Roane County has been in the practice for a number of years of issuing debt for replacement scheduled assets. The County has been able to continue this practice by the informal practice of what I would refer to as "**rolling debt**". As debt is paid off more debt is issued for the same type or similar assets. Our position is that Roane County should take needed steps to stop the practice of "rolling debt".

#### **The Solution:**

The issue is how and when do we solve the "rolling debt" problem?

**First**, Sheriff's patrol cars will not be leased. Our office will proposed the establishment of a capital projects sub-fund in December of 2010 or January of 2011 on vehicles. The county should use the property tax assigned to the General Capital Fund 171 (original tax in Fund 101) to purchase these vehicles. Our position is that no debt will be used to purchase/lease the Sheriff's patrol cars. Our ultimate goal over the next number of years is to transfer the vehicle purchase back to the General Fund 101.

**Second**, we will ask the school administration and board to begin the process of purchasing school buses from operations or from school capital projects funds. Since the school system has a sufficient fund balance and has a low capital request need for the 2010-11 budget, we are asking the schools to assist in our long term debt management/capital plan by purchasing school buses in 2010-11 similar to the county which will be purchased out of our current operations or our fund balances. The schools have a fund balance that not only exceeds a much talked about 3% balance but exceeds 10% of operations. The school fund balance generally, as the county develops a fund balance policy, would runs about one month of salaries which is between 7 % and 10% of the school general purpose budget. Since the school fund balance exceeds a typical fund balance requirement and since school buses were originally projected at \$305,000 of which it has been determined that approximately half is for a special education bus which historically has not been on the debt schedule but purchased with special education funds, thus the need for the 2010-2011 year is approximately \$150,000. \$150,000 is only a very small percentage of the school budget and of their respective fund balance. Further, the county would have to borrow more than just the county's portion since the proceeds would have to be shared with the Oak Ridge City School System. The schools are in a substantially better financial position than the County General Fund which continues to struggle for operations money but have and will take a financial position in managing proactively our capital debt operations. Further the administration of borrowing only \$150,000 is cost prohibitive. We are looking at the potential adoption of a 20-page resolution, receiving approval from the Comptroller's Office setting up a note and amortization schedules for the future payments.

With approval of the Budget Committee, we respectively request the Roane County Board of Education and administration to consider amending the transportation and/or general purpose school budget or capital budget to pay for the school buses for the 2010-11 year out of the current operations and/or fund balance. **Budget Committee did not approve asking the Roane County School Board for any assistance (see Budget Committee Minutes of 11-4-10).**

#### **Summary of Positions:**

1. Replacement of computers and radios should be out of general operations and no debt issued.
2. Vehicles that are purchased infrequently should have money set aside for those purchases and no debt issued.
3. Sheriff's patrol cars, ambulances, and school buses should have replacement schedules and planned purchases out of operating or capital fund without debt issued.
4. Any debt should not exceed an asset's useful life.
5. Lease agreements for the purchase of assets should not be used.
6. The practice of "rolling debt" should be stopped.