

**Goal/Mission:** To provide management with appropriate guidelines and direction to assist in making sound decisions related to the procurement, construction, scheduling and managing of capital assets. To further demonstrate strong financial management practices for our county citizens, outside investors, and credit agencies.

The ultimate goal is to financially position Roane County to limit indebtedness for purchase/construction of capital assets and to insure proper accounting and management of capital projects.

This policy shall address all capital projects; however, certain exceptions shall be noted related to the Highway Fund 131, Highway Capital Projects Fund 176 and the School Funds (141,142,143,144,146) and Education Capital Projects Fund 177.

**Objectives:**

1. Provide an educational briefing of the categories of capital assets and their accounting in general operating funds and/or capital outlay funds.
2. Allow decisions to be transparent.
3. Provide a medium in which long term planning for new and replacement assets can be studied.
4. Identify revenue streams that can support capital projects
5. Create an accounting plan which will help in establishing and maintaining creditability for capital management.

**This Policy References:**

- Resolution #10-99-05- Fixed Assets
- Various Resolutions noted in Section 4 and 5.
- Attachment A- Highway and Education Thresholds for Capital Planning
- Attachment B- Position Statement November 2010- Purchase of Replacement Schedule Assets
- Attachment C- Excerpts from Roane County Schools BEP formula

**1. Categories of and Accounting for Capital Assets**

Roane County shall classify capital assets for this policy into Three (3) type/categories:

- **Minor capital asset** is considered an asset which is has a life expectancy between one (1) to five (5) years and a relatively small expenditure cost relative to the operating fund or department budget from which the asset is being purchased or constructed . Examples are: Computers, radios, furniture, certain tools and equipment. Estimated cost would be \$1,000 to \$20,000. Highway and Education thresholds are larger due to the size of the operating funds. See Attachment A
- **Medium capital asset** is considered an asset which has life expectancy between three (3) to 12 years, has a cost between \$20,000 and \$400,000 and the asset cost could be a relatively small

cost related to the operating fund or department budget from which the asset is being purchased or constructed. Examples are: Vehicles, roof replacement, certain heating and cooling replacement, walkways, roads improvement, and certain recreation improvements. Highway and Education thresholds are larger due to the size of the operating funds. See Attachment A

- **Major capital asset** is considered an asset which has a life expectancy of 12 to 15 years or greater and has a large cost relative to the operating fund or department budget from which the asset is being purchased or constructed. Estimated cost would be between \$200,000 and up. Generally, the asset would require the issuance of debt. Examples are: New construction of buildings, major replacement of roofs, certain road improvements. Highway and Education thresholds are larger due to the size of the operating funds. See Attachment A

Roane County shall pay for the purchase or construction of capital asset(s) either in an operating fund (101-149), a capital outlay fund (171-179), or an enterprise fund (201-209).

**Minor capital assets** shall be purchased from their respective operating funds.

**Medium capital assets** shall generally be purchased out of a capital project fund but if the capital asset is classified as a replacement scheduled asset the asset could be purchased from operating fund (example would be vehicles).

**Major capital assets** shall generally be purchased out of a capital project fund but in very limited cases could be charged to an operating fund.

**Scheduled Replacement Assets-** Discussion of scheduled replacement assets can be found in the Attachment B –Replacement Asset Position Statement.

## 2. Transparency

Capital budgets shall be adopted by project(s) and if annual revenue supports the projects(s) then annual budget adoption is required.

Capital budgets remain authorized until the project(s) are completed or closed.

### ***Capital Plan responsibilities (Excluding Highways and Education)***

Responsibilities for capital plans and reporting shall be assigned as follows:

#### **Director of Accounts and Budgets (DoAB) shall:**

- Have an understanding of the accounting Fixed Asset Policy (Resolution #10-99-05 )
- Develop a capital asset request form which shall capture data as follows:

- Asset name and type
- Department assets to be placed
- Estimated year needed- minor asset 1-3 years- medium asset 1-12 years- major asset 1-20 years
  
- Anticipated cost
- Any dedicated revenue source which may or could support the purchase of the asset
- Whether the asset should be considered as a replacement scheduled asset
- Distributed by February 1 to Department Heads/Elected Officials the capital asset request form
- Complete the state Public Infrastructure Needs Survey and file a summary report with the county commission. This report shall include the Highway Department and the Board of Education needs.
- Review the county's Fixed Asset Report and be familiar with any replacement asset needs
- Consolidate Department Heads/Elected Officials capital asset request by category
- Annually and periodically report projects status to the county commission

**Department Heads/Elected Officials shall:**

- Submit to the DoAB by April 1 their respective capital asset request

**County Executive shall:**

- Work with the DoAB to compile capital project needs
- Development ? capital project funding plans
- Submit consolidated capital project plan/budgets to the respective committees or county commission with recommendation

**County Budget Committee/respective committee(s) or ad hoc Capital Committee shall:**

- Review consolidated capital project plan/budgets for consideration and recommendation to the county commission

**County Commission shall:**

- Consider any request for projects for approval and/or funding

***Capital Plan responsibilities for Highways***

Responsibilities of highway capital improvement planning shall be at the discretion of the Highway Superintendent along with the Highway Committee.

The County Executive, Budget Committee and County Commission shall recommend and/or approve any funding needed whether debt is required or not.

The county encourages the Highway Superintendent along with the Highway Committee to follow a similar capital plan as developed herein and to submit to the DoAB and County Executive annual and multi-year plans to be consolidated with the county's plan.

### ***Capital Plan responsibilities for Education***

Responsibilities of education capital improvement planning shall be at the discretion of the Director of Schools and Board of Education.

The County Executive, Budget Committee and County Commission shall recommend and/or approve any funding which requires debt issuance.

The county encourages the Director of Schools and Board of Education to follow a similar capital plan as developed herein and to submit to the DoAB and County Executive annual and multi-year plans to be consolidated with the county's plan.

### **3. Medium for long term planning for new and replacement assets**

During February and March of each year the Director of Accounts and Budgets (DoAB) shall request from each elected/appointed official and department head a listing of future capital projects. The DoAB shall compile a list of all projects and consolidate the new request with existing projects and establish additional listing within established sub funds or recommend the creation of new sub funds.

A consolidated budget shall be submitted to the county executive for recommendation to the budget committee. The budget committee shall submit a recommendation to the county legislative body at any time or during the annual adoption of the county budget.

Periodic reports shall be filed with the county commission for public records reflecting:

- Project name
- Accounting entity sub fund or project fund reflecting
  - Balance Sheet
  - Project Budget Remaining
  - Statement of Revenues and Expenditure against remaining project budget
  - Statement of Revenue and Expenditures for the entire project
- Time calendar or Gantt chart for project scheduling

Projects shall be placed in an established sub fund or a new sub fund shall be established to account for the projects.

#### 4. Revenue Streams to support capital projects

Various revenues can be used or assigned to help support capital projects. The following revenues have been identified and shall be considered for capital projects, further certain revenues shall be noted in the annual appropriation resolution:

- Two (2) cents of Property Tax previously assigned to the County General Fund 101. Transferred in the 2011 budget with a related transfer of Sheriff's vehicles purchases. (Appropriation resolution #08-10-01) subject to annual change
- Two cents of Property Tax previously assigned to the General Debt Service Fund 151 to assist in the establishment of the capital project fund. (Appropriation resolution #08-10-01) subject to annual change
- TVA Swan Pond purchased property impact funds from the TVA foundation. These funds are available under contract for the period of 2009, 2010, and 2011 tax years. Resolution #02-11-16
- State Sharing TVA impact construction funds. These funds fluctuate over time as they are earned due to construction work and workers who live in Roane County but work either at the TVA Kingston Steam Plant or Rhea County Watts Bar Nuclear Plant.
- Recreation Fee from the Caney Creek Marina and Campground to be used for recreation related capital asset activities and matching capital assets grants.
- Certain capital assets will have respective grant revenues
- Debt issued
- Excess fund balance of other funds which may accumulated over time
- Any other revenue which may be identified at any point in time

#### 5. Accounting plan establishing and maintaining creditability for capital management

Roane County shall establish a permanent General Capital Project Fund 171 in order to account and plan for the procurement and/or construction of medium and large Capital assets. General Capital Project Fund 171 shall be divided into sub funds in order to maintain accounting integrity and assist in scheduling and planning capital projects.

The initial project shall be classified and defined as follows: (note resolution approval)

CF	Cash Flow Fund	08-10-01
B11	Fiscal 2011 Budget	08-10-01
TEQ	TVA Equipment for Office of Emergency Serv	11-10-07

Roane County Capital Projects Policy 1-20-11 (Rev. 2-13-11)  
Established with the adoption of Resolution #03-11-22

HET	Heritage Commission Old Courthouse Constr	11-10-07
HOM	Home Improvement Grant	11-10-07
WBU	Watts Bar Utility CDBG grant	12-10-07
HSG	Homeland Security Grant	12-10-18
VEH	Vehicles of the General Fund	12-10-19
REC	Roane County Park Improvements	12-10-20
CCC	Convenience Center Improve't (Fund 116)	12-10-20
RCY	Recycling Improvements (Fund 123)	12-10-20

Additional resolutions shall be anticipated, add to, adjust, and/or close respective sub funds and the capital project fund in general.

## Attachment A

### Highway and Education Thresholds for Capital Planning

#### Highway Capital Threshold and Discussion

The Highway Fund as of January 2011 has an approximately \$3.3 million operating budget. Capital items in the Highway Fund consist mainly of vehicles, equipment, and road improvements (hot mix asphalt and bridges). Vehicles and equipment fall under the guidelines of replacement scheduled asset and thus would be procured out of the operating fund. Roane County has over 99.6% of all roads paved which would mean that most road improvements would fall under maintenance or scheduled replacement assets (Attachment B) in the operating fund.

Since Roane County receives monthly state gas and motor fuel taxes along with a large local contribution, it would not be anticipated that any significant capital needs would exist in highway operations which would not be funded from the operating budget. However, on occasion funds could be applied specifically to capital projects with special revenues allotted or by way of issuance of debt. In the event of special revenue allotments or debt issuance the Highway Capital Project Fund 176 shall account for the revenue and capital expenditures.

Any future local revenue contribution for highways should be allocated to the Highway Capital Project Fund 176; thereby, prohibiting future required maintenance of effort (TCA 67-3-901).

#### Education Capital Threshold and Discussion

The General Purpose School Fund 141 as of January 2011 has an approximately \$50.6 million dollar budget. Many capital items in the education department are considered replacement scheduled assets (Attachment B) such as (vehicles, computer, furniture and equipment); further, the Basic Education Program (BEP) funding formula earns approximately \$5,000,000 as noted in Attachment C for the 2011 budget and a relative similar amount each year. The earnings by the formula come from both state and local revenue. These earnings are generated for the estimated construction cost of new facilities and a related estimated debt repayment schedule associated with the new facilities. Roane County has not requested the schools to pay for their own debt thereby freeing these funds up for other use.

The county would anticipate the Board of Education would have a capital program which would fund all capital needs outside of new school construction. The Board of Education should set aside a percentage of their BEP capital earnings for replacement of HVAC, roofs and similar type of large ticket expenditures; thereby, not requesting the county to fund these expenditures with debt.

**Attachment B**

Date: November 2010

**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 ambulance 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 propose 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 run 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 respectfully 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.

# Attachment C 1/2

Roane County		2010-2011 BEP July Final	
<b>Non-classroom Components (Cont'd)</b>			
<b>Other Non-classroom Allocations</b>			
<b>Non-instructional Equipment</b>			
Total ADM	7,284	x	\$18.75 = \$136,574.31
			-----> 136,574
<b>Pupil Transportation</b>			
			2,185,116
<b>Maintenance &amp; Operations</b>			
calculated sq. footage	817,405.93	x	\$3.00 = 2,452,217.79
			from Work Sheet #2
<b>CDF &amp; Benefits for Transportation and M&amp;O Personnel</b>			
45% of Pupil Transportation			5983,302.29
50% of M&O			1,471,330.67
Total Allocation for Trans & M&O Personnel Salaries			\$2,454,632.96
County CDF Adjustment		x	0.00%
			-----> 2,454,633
<b>CDF Allocation for Trans &amp; M&amp;O Salaries</b>			
			\$0.00
			-----> 0
<b>Total Allocation for Trans &amp; M&amp;O Salaries w/CDF</b>			
			\$2,454,632.96
Combined Social Security & Retirement Rates		x	18.17%
			-----> 446,007
<b>Ret/FICA Allocation for Trans &amp; M&amp;O Personnel</b>			
			\$446,006.81
			-----> 446,007
<b>Total Allocation for Trans &amp; M&amp;O Salaries w/CDF</b>			
			\$2,454,632.96
Non-classroom ins. Prem. % of salary		x	1.51%
			-----> 429,894
<b>Insurance Allocation for Trans &amp; M&amp;O Personnel</b>			
			\$429,894.46
			-----> 429,894
<b>Other Transportation and M&amp;O</b>			
55% of Pupil Transportation			\$1,201,813.91
40% of M&O			980,887.12
Total Allocation for Other Trans & M&O			\$2,182,701.02
			-----> 2,182,701
<b>Capital Outlay</b>			
(see Work Sheet #2)			4,986,687.63
			-----> 4,986,688
<b>Total Other Non-classroom Allocations</b>			
			\$10,616,487
			-----> 10,616,487
<b>Total All Non-classroom Allocations</b>			
			\$13,012,853
<b>State Percent for Non-classroom Components</b>			
			52.79%
<b>Total State Non-classroom Allocation</b>			
			\$6,969,321
<b>Total State Allocation</b>			
			\$28,571,280

# Attachment C

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Roane County

2010-2011 BEP July Final

Work Sheet #1: Career Technical Education Center Transportation

FTEADM transported				
Average one-way miles to center			x	
Unit Cost			x	\$23.65
<b>Total Career Technical Education Center Transportation</b>				\$23.65

Work Sheet #2: Capital Outlay

		ADMs					
<b>Square Footage Requirement</b>							
k-4	2,819	x	100	=	281,972.43		
5-8	2,247	x	110	=	247,211.58		
9-12	2,218	x	130	=	288,321.64		
<b>Total Square Footage Requirement</b>					817,405.63		
<b>Estimated Cost of Construction</b>							
k-4 sq. footage	281,972	x	\$121.00	=	34,106,554.18		
5-8 sq. footage	247,212	x	\$125.00	=	30,901,448.04		
9-12 sq. footage	288,322	x	\$123.00	=	35,463,598.42		
<b>Subtotal Estimated Cost of Construction</b>					100,471,600.64	----->	\$100,471,600
Equipment Allocation Rate				x	10.0%		
					10,047,160.78	----->	10,047,161
<b>Subtotal Estimated Cost of Construction</b>					100,471,607.64		
Architect's Fees				x	5.0%		
					5,023,580.38	----->	5,023,580
<b>Total Estimated Cost of Construction</b>					105,495,188.02	----->	\$110,518,768
<b>Estimated Annual Cost of Construction</b>							
Debt Service Period						@ 20 years	
Debt Service Rate						@ 6.00% interest	
Amortization Cost						\$198,967,608	
Life Expectancy						+ 40 years	
<b>Grand Total Capital Outlay Funding</b>						\$4,968,688	\$4,968,688

