

Education and Finance

Future of Education:

With all the Facebook chatter and newspaper articles, I thought it would be beneficial to reduce to writing some points and issues that have been or will be considered as we progress forward in our understanding and implementing a plan of education for the future.

In the fall of 2015, the first discussions began in regards to the future of education in Roane County. Some of the first community meetings took place in the summer of 2016 and continued through the winter of 2016. The Roane County School board then met and started making motions regarding school consolidation in late winter and early spring of 2017. We have come to a point now to explore in more depth financial and scheduling aspects of a school consolidation plan.

The perspective I will take in this article will deal with the financial impact and the potential schedule to deploy the Board of Education's planned future of Roane County's education program.

Assumptions

To understand some of our financial issues, we first must make and hopefully agree with some assumptions:

1. The County will be required to borrow funds for a major school capital project.
2. Primarily, repayment of Debt is made by property tax revenue.
3. Since Oak Ridge has a city school system, the County would not require the properties within the city to repay the debt issued for the Roane County Board of Education. If the County required Oak Ridge properties to help pay for this indebtedness, then the money that would need to be borrowed would have to be increased in order to give Oak Ridge City Schools a percentage of borrowed funds according to the number of Roane County students in the Oak Ridge City Schools systems.
4. Borrowed funds would be amortized over a 30 year period similar to a new house mortgage. One assumes the facilities will last 30 years.
5. Calculate estimated interest rate of 4% for budgeting purposes.
6. The value of properties in Roane County outside the City of Oak Ridge generates approximately \$104,000 per each penny in property tax.
7. No additional debt outside of this Educational issue is added to the debt schedule.
8. Debt will not be issued until 2020 and the first principal payment made in 2023.
9. We review only Debt Service funds and the impact of Debt Service property tax rates.

What is the Cost of the Project in Property Tax Pennies?

Assuming a project cost of \$50,000,000, the annual payment of principal and interest would be almost \$2,900,000. Divide \$2,900,000 by \$104,000, the value of one penny in property tax, and this would reflect a need for 28 cents in property tax. Another way to look at this, is that for every \$1,800,000 borrowed, 1 cent in property tax is needed. Once the estimated project has been determined, divide the project cost by \$1,800,000 to arrive at the total tax cost in pennies. Therefore a total project cost of \$50,000,000 would be 28 cents in property taxes.

The total project has not been estimated at this time. The Roane County Debt policy requires the Commission to know the cost of the project in pennies before debt can be financed.

Incorporating New Debt Schedule with the Old Debt Schedule?

Roane County’s next step in our Debt Policy requires the County to incorporate the potential new debt into the existing debt payment schedule. This is used to reflect the anticipated pay off of the existing debt as the County issues new debt.

Therefore, the total tax burden anticipated to pay the new debt is reduced by older debt being paid off. The following table reflects the 2018 debt tax rate and the existing debt rate for 2023.

<u>Property Tax Payers outside Oak Ridge</u>	<u>2018 Debt Tax Rate</u>	<u>2023 Debt Tax Rate</u>	<u>Savings</u>
Harriman	16.5	13	3.5
Outside Harriman & Oak Ridge	31.0	13	18

Thus, if you now incorporate the new debt into the existing debt schedule, the 28 cents increase in Harriman is now 24.5 cent. The increase in areas outside Harriman and Oak Ridge is 10 cents.

Are other Funds available?

Other sources of revenue could be available, the most notable would be a transfer from the Roane County General Purpose School (GPS) fund to assist in paying off the new debt. The funds could be:

1. Transfer from GPS of Capital Outlay monies earned from the Basic Education Program (BEP).
- 2 Transfer from GPS of the anticipated savings estimated by the schools engineers. The transfer of funds could be for part or the entire schedule of debt replacement.
3. A sales tax increase referendum could be approved by the voters and funds could be pledged that would generate about \$760,000 annually which is a little over 7 pennies.
4. A wheel tax of \$50 could generate about \$1,200,000 annually equaling a total of 11.5 pennies.
5. One time funds that could be available would be from the sale of the school surplus property. Not a significant change in the tax rate.

In summary

One can now make a projection of the tax burden of a capital project for Education. We started at a 28 cent increase outside of Oak Ridge, then depending on where your property is located, a reduction in the tax rate would take place in 2023 of either 18 cents saving outside of Harriman and 3.5 cents savings inside of Harriman. This makes the increase in tax rates to pay for schools at **10 cents or 4%** outside Harriman and **24.5 cents or 10%** inside of Harriman. Then each \$104,000 in annual revenue increase would decrease the debt tax by 1 penny.

Potential Schedule

There is much work that is needed before the Commission will consider a school capital program. A couple of requests from our office to the school board has been:

1. A surplus plan if schools are going to be consolidated.
2. A curriculum for the new educational program.
3. A new high school operational budget.

The Commission will not be taking any action until a request is made by the Board of Education.