



# County Technical Assistance Service

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## Develop a Multi-Year Debt Budget

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Dear Reader:

The following document was created from the CTAS electronic library known as e-Li. This online library is maintained daily 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 e-Li material.

Sincerely,

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## 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

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