

How Will Madison County Finance its CIP?

Localities provide funding for their Capital Improvement Plans (CIP) through a combination of pay-as-you-go financing and short- and long-term borrowing. Some localities issue bonds on a yearly or other regular basis, keeping within self-established capacity limits. Bond ratings companies and the Government Finance Officers' Association (GFOA) recommend the establishment of local policies which set forth multi-year debt planning and financial management guidelines, including measures for gauging the affordability of debt to that particular locality.

Recommendation 1: To finance the CIP, Madison County should utilize long-term financing (*general obligation bonds or equivalent*). According to generally-accepted standards, increasing our level of debt will: (i) allow us to proceed with much-needed capital projects within acceptable debt limits and (ii) help relieve pressure on cash reserves. For the immediate future, debt should be increased to finance needed improvements; however, debt *service* should remain at the current budgeted level, until cash reserves can be augmented. This could be achieved by rolling outstanding debt into newly-issued obligations.

Measure of Capacity: Recommended Ratio of Net Tax-Supported Debt Service to General Expenditures: 5% to 15%¹

Fiscal Year	Madison's Actual Debt Ratio ²	5%	10%	15%	Fiscal Year	Madison's Actual Ratio	5%	10%	15%
2010	TBD	TBD	TBD	TBD	2002	4.89% (1,006,984)	1,030,174	2,060,348	3,090,522
2009	2.43% (800,187)	1,648,539	3,297,080	4,945,617	2001	3.64% (1,048,141)	1,440,010	2,880,020	4,320,030
2008	2.45% (791,972)	1,615,595	3,231,189	4,846,785	2000	4.23% (1,093,358)	1,293,145	2,586,290	3,879,435
2007	2.73% (811,873)	1,489,509	2,979,018	4,468,527	1999	4.87% (915,564)	940,449	1,880,898	2,821,347
2006	3.11% (831,109)	1,338,199	2,676,397	4,014,597	1998	3.51% (585,102)	833,885	1,667,770	2,501,655
2005	3.47% (860,329)	1,238,796	2,477,592	3,716,388	1997	4.06% (657,365)	809,900	1,619,801	2,429,700
2004	3.82% (884,574)	1,158,879	2,317,740	3,476,637	1996	4.08% (644,272)	788,613	1,577,226	2,365,839
2003	3.68% (891,314)	1,210,162	2,420,323	3,630,486	1995	4.46% (625,764)	700,863	1,401,726	2,102,589

Measure of Capacity: Recommended Ratio of Net Tax-Supported Debt to Market Value (i.e., Assessed Value): 2%-5%³

Fiscal Year	Madison's Net Debt ⁴	2% of Assessed Value	5% of Assessed Value	Fiscal Year	Madison's Net Debt	2%	5%
2010	\$7,743,068	63,011,189	157,527,972	2002	8,540,889	16,489,608	41,224,019
2009	\$7,599,998	\$63,011,189	157,527,972	2001	9,128,406	13,563,273	33,908,182
2008	\$5,174,039	\$30,389,710	\$75,974,275	2000	9,768,621	13,563,273	33,908,182
2007	\$5,750,840	\$29,847,681	\$74,619,203	1999	4,205,280	12,864,471	32,161,179
2006	\$6,320,857	\$29,025,874	\$72,564,684	1998	3,754,592	12,569,157	31,422,893
2005	\$6,884,519	\$17,732,065	\$44,330,163	1997	4,034,078	12,293,822	30,734,554
2004	\$7,442,122	\$17,331,193	\$43,327,983	1996	4,413,628	15,972,170	24,930,425
2003	\$7,993,956	16,871,057	\$42,177,642	1995	4,745,915	9,721,003	24,302,508

Recommendation 2: the County must decrease its reliance on cash reserves (Fund Balance) to finance capital and operating expenditures. To do this, it will be necessary to: (i) identify a regular source of pay-as-you-go funding for capital projects—for example, a commitment to transferring a portion of end-of-year balances to the Capital Fund; (ii) return to prior years' practice of modest annual tax increases, until the County's cash reserves can be stabilized; (iii) continue tight expenditure controls, with no mid-year budget supplements for other than critical needs; and (iv) establishment of a multi-year Capital Improvements Plan, to reduce temptation to over-spend in the short term to the detriment of longer-term objectives.

Measure of Capacity: Cash Reserves

Fiscal Year	Audited Fund Balance End of Prior FY	Fund Balance Designated to Cover Budget Expenditures	Effective Available Fund Balance	Minimum Recommended Fund Balance (2x Avg. Monthly Expenses)	Operating Cash Expended for Capital Improvements
2011	5,445,280	3,129,214	2,316,066	\$7,041,579	TBD
2010	9,531,602	4,995,021	4,536,581	\$6,655,174	4,634,042
2009	4,146,886	1,448,015	2,698,871	\$6,568,968	3,594,865
2008	6,374,764	5,074,083	1,300,681	\$6,066,822	2,487,444
2007	5,105,422	2,500,000	2,605,422	\$5,509,323	519,851
2006	3,506,918	1,186,429	2,320,489	\$5,059,464	1,095,866
2005	2,650,097	1,611,344	1,038,753	\$4,769,559	375,856

¹ Moody's Investors Service, "Six Critical Components of Strong Municipal Management," (2004)

² Source: Madison County's Annual Audit Reports, Table 9

³ Moody's; Fitch Ratings, "To Bond or Not to Bond," (2005)

⁴ Source: Madison County's Annual Audit Reports, Table 8