

Thinking of the future

The Orange County Board of Supervisors is on the verge of doing a smart thing.

The supervisors are considering funding a list of important capital improvements through a bond issue this November. Basically, they are proposing to borrow money for long-term improvements.

Here's why this is smart:

If you pay for capital improvements over the course of many years, the cost is more evenly distributed.

Our Opinion

Take this example. Suppose the county is looking to build a \$1 million library. If the county wants to pay for the library up front, they need to raise the \$1 million somehow.

The only way to raise that money is to raise the tax rate. The supervisors, therefore, add 10 cents to the tax rate for one year, raising just more than \$1 million.

This is called "pay-as-you-go." This is the way the county has always approached capital improvements, other than schools.

Unfortunately, under this system, the current taxpayers end up footing the entire bill for the library. Future taxpayers enjoy the benefit of the library, but they bear none of the cost.

If, however, the county borrows the money, the cost can be spread to future taxpayers.

Suppose the county sells \$1 million worth of bonds that will be paid off over the next 20 years. Each year, the county might only have to pay about \$100,000 to service the debt. That translates to about one extra cent on the tax rate.

This is called "pay-as-you-use."

It means the present users of the library pay some of the cost and the future new users of the library pay some of the cost. As long as you live in the county, you pay some of the cost, at least until the building is paid off.

The total cost of a "pay-as-you-use" library might be higher, but it is divided into small, manageable segments that are paid by more people.

It's no different from borrowing money to buy your house -- you need to break the huge cost into smaller payments so you can afford it.

The tricky thing about debt is to avoid borrowing for things that aren't capital improvements. Capital improvements should only be items that will be long-term assets to the county and will remain in use long after the debt is paid off: schools, libraries, bridges, industrial parks.

The supervisors must never get in the position of taking long term loans for short-term things such as salaries, routine maintenance, and day-to-day operational costs. It's that kind of borrowing that has led the federal government to the brink of disaster.

Fortunately, the supervisors appear to understand the important difference between operations and capital improvements. The current bond issue idea includes only long-term capital improvements. As such, it's one of the smartest ideas to come out of the board in a long time.