Financing Options for Municipalities

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State and local governments have options for financing projects. Like any other borrower, there's long term debt and short term debt. Beyond that, there are peculiarities specific to municipalities.

Long Term Debt. Generally, long term debt have maturities of 30-40 years. There are seven common kinds of long term debt. They are as follows.

General Obligation Bonds. General obligation bonds are secured by a pledge of the taxing districts property tax authority. This is a traditional form of financing for capital projects like transportation projects, park development, and schools. There are two types of general obligation bonds. The first is called a limited tax obligation bond and the second is called an unlimited tax general obligation bond. The first is also known as non-voted debt because it is issued by a vote of the legislative body. This means that general fund revenues must be pledged to pay the debt and there is no additional revenue source to make the debt service payments. An unlimited tax general obligation bond is voted debt. As a result, it must be approved by a minimum figure (percentage) of votes. When votes are asked to approve this kind of bond, they are also asked to approve an excess levy, raising property taxes to cover the debt service payments. These bonds may only be used for capital purposes.

Revenue Bonds. Revenue bonds may be issued to finance projects that are self supporting. Water and wastewater projects, airports, and bridges are examples of projects that can be financed with revenue bonds. The debt service payments are made from the user fees that are collected. Revenue bonds are not backed by the full faith and credit of the government entity. As a result, the interest rate could be higher. Revenue bonds are not subject to the statutory or constitutional debt limits.

Improvement District Bonds. When the primary beneficiary of a project is only a subset of the citizenry, a local improvement district can be formed to finance the project. Local Improvement districts include road improvement districts to improve street lights and sidewalks.

Lease Purchase Agreements, Certificates of Participation (COPS), and Conditional Sales Contracts. These are alternatives to financing for the acquisition of real or personal property. With lease purchase agreements and conditional sales contracts, a vendor receives payments over time and the government entity owning the property at the end of the term. COPS turn lease purchase agreements and conditional sales contracts into a marketable security. The lease is assigned to a trustee and the underwriter sells shares in the lease to investors.

Federal and State Government Loans. These are other options. The Department of Ecology and US Department of Agriculture still provide loans.

Refunding and Advance Refunding Bonds. These bonds are bonds issued to replace and refinance outstanding general obligation or revenue bonds. You will likely see these if interest rates have fallen. An advance refunding is a refinancing of bonds by the issuance of new debt prior to their (prior bonds) call date.

Private Activity Bonds. These bonds are tax exempt revenue bonds often issued to finance non-government projects that serve a public purpose. They can be used to finance housing, economic, and industrial development.

Short Term Financing. Short term financing is used to cover a temporary cash flow issue or for interim financing, until long term financing has been secured.

Short Term Warrants. In financing, a warrant is an order that directs the treasurer to pay a certain amount to the named borrower. If the municipality lacks the money to pay, the treasurer registers the warrant for future payment and is authorized to set an interest rate. Warrants are backed by the full faith and credit of the governmental entity and so are general obligations. If they are not paid within the fiscal year of issuance, they are considered debt for debt limit purposes.

Tax Anticipation Notes, Bond Anticipation Notes, Revenue Anticipation Notes, and Grant Anticipation Notes. All of these are short term financing tools. They are paid for by money derived from the source in anticipation, or any money legally available for this purpose. Tax anticipation notes must be paid off or retired by June 30 of the following year in which they are issued.

Lines of Credit. Lines of credit are an alternative to anticipation notes. Here, a bank issues a maximum amount available. The government provides a note to the bank that is backed by the full faith and credit of the jurisdiction. The amount of debt drawn is subject to debt limits.