

Township Indebtedness Issues

MAT 2010 Summer Short Course

Objectives:

1. Understand the Authority to Borrow
2. Understand the Proper Procedures to Follow to Incur Debt(i.e. don't just sign for a loan at your local bank)
3. Understand Impact on Local Levy
4. Understand Documentation Needs (i.e. don't get lost along the paper trail.)
5. Understand the Need for Using Specialists

Township Indebtedness Issues

MAT 2010 Summer Short Course

- General Concepts to Remember:
 - Must be for a public purpose
 - Must have statutory authority
 - Need to know town's current taxable market value and available credit under net debt limit
 - Total debt cannot generally exceed 3% of taxable market value, but many exceptions exist as to what counts towards total debt
 - Don't assume the way you borrowed the last time is the best way for the current need

Township Indebtedness Issues

MAT 2010 Summer Short Course

- Be willing to pay for expert advice, both legal and fiscal:
 - Financial Planner
 - Town Attorney
 - Bond Counsel

Township Indebtedness Issues

MAT 2010 Summer Short Course

- Preparation for Incurring Debt
 - Identify Public Purpose and Need to Borrow
 - Identify Amount Needed
 - Identify Desired Duration of Debt
 - Identify Statutory Authority and Options for Debt
 - Identify Best Debt Instrument to Use
- A financial planner and good bond counsel can help determine the proper type of debt instrument to use

Township Indebtedness Issues

MAT 2010 Summer Short Course

- Sources of Authority:
 - Minn. Stat. § 366.95 General Certificates of Indebtedness
 - Minn. Stat. Ch. 475 – Bonds
 - Minn. Stat. § 471.382 - Credit Card
 - Minn. Stat. § 465.71 - Lease-Purchase
 - Minn. Stat. § 365.025 – Conditional Sales Contracts and Contracts for Deed
 - Other: Special programs, U.S. Dept of Agriculture, etc.
- No Authority for a “Personal” Loan to Town
- No Use of Warrants (w/limited exceptions)
- No Financing Through a Dealership

Township Indebtedness Issues

MAT 2010 Summer Short Course

- Certificates of Indebtedness (“Bonds-lite”)
 - No statutory form
 - Short term (no more than 10 years)
 - If value exceeds 0.25 percent of taxable market value of town must publish notice of intent to issue and wait ten days for petition signed by a number of residents equal to 10% of voters at last town election requesting a referendum
- Must levy to pay principal and interest in same manner as a bond (105% of principal plus interest owed each year)
- Subject to general public finance / debt rules (Chapter 475)
- Often handled improperly - many small community banks unfamiliar with Col’s but may have access to a network for information; otherwise may need to go to larger bank

Township Indebtedness Issues

MAT 2010 Summer Short Course

- Certificates of Indebtedness (continued)
 - Emergency Certificates can be issued when town lacks sufficient revenues to deal with a natural disaster or public emergency (Minn. Stat. § 475.754), but emergency certificates must be paid back in 3 years, but don't count towards debt limit
 - Emergency Certificates may be issued to offset unallotments or reasonably anticipated reduction in aid payments, etc. Limited to 2 years in duration, but don't count towards debt limit. (Minn. Stat. § 475.755)

Township Indebtedness Issues

MAT 2010 Summer Short Course

- Bonds:
 - Several types exist, each with their own limits as well as procedural requirements
 - Intended use of funds helps determine which type of bond is appropriate
- Longer terms, 20 – 30 years common
- Interest may be non-taxable, resulting in lower interest rates being available
- Town board required to increase levy, generally to cover 105% of principal and interest due in a year
- Bond rating can be issue
- Issued as securities under the Uniform Commercial Code (UCC) (Minn. Stat. Chapter 336)
- Federal laws apply as well as State regulations
- Complexity makes Bond Counsel essential, and financial planner advisable

Township Indebtedness Issues

MAT 2010 Summer Short Course

Bonds continued:

- General Steps for Issuing:
 - Public purpose, size and scope of purchase / project identified by town board
 - Amount and duration of bond determined by board, preferably in consultation with experts
 - Bond issuance authorized by board resolution setting out the amount of the bond and the public purpose for which the bond is being issued, setting a sale date and all terms of the intended bond issuance
 - Referendum presumed required but many exceptions exist (Minn. Stat. § 475.58)

Township Indebtedness Issues

MAT 2010 Summer Short Course

Bonds continued:

- General steps for issuing (cont.):
 - Official statement/prospectus prepared (preferably by financial planner) setting forth the: official notice of sale; description of the bond issue; all pertinent financial & economic data of the town; the proposed bond counsel opinion on the bond's purpose, taxable status, etc. A town official, usually the clerk, must attest to the accuracy of the statement by signing it.
 - Bond purchase proposals solicited and received (detailed notice required but exceptions exist – Minn. Stat. § 475.60)

Township Indebtedness Issues

MAT 2010 Summer Short Course

Bonds Continued:

- General Steps for Issuing (cont.):
 - Proposals reviewed by financial planner, clerk, or treasurer and recommendation made to board. Usually high bidder awarded the bond.
 - Board adopts resolution establishing the final details of the bond, levies the required taxes, makes final pledges to pay and promises to comply with all applicable laws and regulations
 - Bond Counsel prepares for bond delivery to purchaser
 - Closing and delivery of bonds
 - Registration if required; IRS Filings; SEC annual disclosures if required

Township Indebtedness Issues

MAT 2010 Summer Short Course

Bonds continued:

- Most commonly used bonds include:
 - General Obligation
 - Town pledges full faith and credit (i.e. all town assets and resources, including full authority to levy taxes) to pay obligation
 - General Obligation Revenue
 - Revenue from bond project is primary source to payback the debt, but town also pledges full faith and credit to pay off any balance revenues do not cover
 - Revenue
 - Only the revenue from the project pledged to pay back debt

Township Indebtedness Issues

MAT 2010 Summer Short Course

- Credit Cards
 - Authorized by Minn. Stat. § 471.382
 - Meant to be paid off monthly, thus not really a proper way to borrow money long term
 - Policy needed setting out who can use the card, for what purposes, and possible spending limits
 - Credit card purchases must comply with all other applicable laws
 - Original invoices, receipts, etc. required to properly authorize payment of card statement

Township Indebtedness Issues

MAT 2010 Summer Short Course

Credit Cards continued:

- Vendors from whom purchases made w/ card must be listed on any list of bills to be paid, not just the name of card issuer
- No personal use allowed. Unauthorized use results in personal responsibility for that portion of the bill

Township Indebtedness Issues

MAT 2010 Summer Short Course

- Lease-Purchase Agreement
 - May be used for real or personal property
 - Essentially lease payments are applied towards an ultimate purchase price, including interest payments
 - Town Exempt from net debt if valued under \$1 million
 - Total value of all payments used to determine applicability of bid laws

Township Indebtedness Issues

MAT 2010 Summer Short Course

- Lease-Purchase Agreements (continued):
 - No referendum required
 - Town must retain right to terminate agreement at the end of each fiscal year

Township Indebtedness Issues

MAT 2010 Summer Short Course

- Conditional Sales Contract (Personal Property) and Contracts for Deeds (Real Property)
 - Governed by Minn. Stat. § 365.025
 - Must be paid off in no more than 5 years
 - Default on Contract for Deed is limited to recovery of property
 - If cost will exceed 0.24177% of town's taxable market value, notice of intended purchase must be published and resident's given 10 days to petition for referendum.

Township Indebtedness Issues

MAT 2010 Summer Short Course

- **RECORDING LOAN PROCEEDS**
 - CREATE FUND FOR PROJECT
 - RECEIPT LOAN PROCEEDS AS DEPOSIT
 - PAY BILLS FOR PROJECT FROM THIS FUND
 - Do not pay back loan from this fund

Township Indebtedness Issues

MAT 2010 Summer Short Course

- **PAYING BACK LOAN**
 - DETERMINE WHAT FUND (GENERAL REVENUE, ROAD & BRIDGE, ETC. FUND) WILL BE USED TO REPAY THE LOAN
 - MAKE ALL PAYMENTS FROM THAT FUND
 - Split interest payment from payment on principal

Township Indebtedness Issues

MAT 2010 Summer Short Course

- RECORDING PRINCIPAL & INTEREST PAID
 - PRINCIPAL
 - ADDITIONAL PRINCIPAL
 - INTEREST

MISCELLANEOUS EXPENDITURES

43	Airports - Current Expenditures	43	\$0.00
44	- Capital Outlay	44	\$0.00
45	Transit - Current Expenditures.....	45	\$0.00
46	- Capital Outlay	46	\$0.00
47	Cemetery - Current Expenditures.....	47	\$0.00
48	- Capital Outlay	48	\$0.00
49	Pension Contribution (if not allocated)	49	\$0.00
50	Insurance (if not allocated)	50	\$0.00
51	All Other - Current Expenditures (identify) 	51	\$0.00
52	- Capital Outlay (ONLY items not classified elsewhere)	52	\$0.00
54	TOTAL CURRENT EXPENDITURES.....	54	\$42,910.44
55	TOTAL CAPITAL OUTLAY.....	55	\$0.00

DEBT SERVICE

56	Principal Payments on Bonds	56	\$0.00
57	Principal Payments on Other Long-term Debt and Short-term Debt	57	\$0.00
58	Interest and Fiscal Charges	58	\$0.00
59	TOTAL EXPENDITURES (should equal total on financial statement)	59	\$42,910.44

OTHER FINANCING USES

60	Investments - Purchased (CDs., savings deposits, etc.)	60	\$0.00
61	Principal Payments - Refunded Bond (payment to escrow agent)	61	\$0.00
62	Other Financing Uses (Include Interfund Debt)	62	\$0.00
64	Operating Transfers to Governmental Funds	64	\$0.00
65	TOTAL EXPENDITURES AND OTHER FINANCING USES	65	\$42,910.44

REPORT OF OUTSTANDING INDEBTEDNESS

At December 31, _____

To: County Auditor
 _____ County, Minnesota

From: _____
 Reporting Governmental Unit

Bonded Indebtedness - All Bonds	Column 1 Amount *	Column 2 [1] Amount Used For Transportation
1 Bonds Outstanding January 1, _____	_____	_____
2 Issued During _____	_____	_____
3 Paid During _____	_____	_____
4 Bonds Outstanding December 31, _____	_____	_____
5 Interest Paid On Bonds (Transportation Only).....	_____	_____

Type of Bonds	Amount	Amount Used For Transportation
6 General Obligation.....	_____	
7 General Obligation Tax Increment.....	_____	
8 General Obligation Special Assessment.....	_____	
9 General Obligation Revenue.....	_____	
10 Revenue.....	_____	
11 Other (Identify).....	_____	
12 Total Bonds Outstanding **.....	_____	
13 Refunding***.....	_____	
14 State Aid or Tax Anticipation Certificates.....	_____	
15 Other Long-term Indebtedness.....	_____	
16 Other Short-term Indebtedness.....	_____	
17 Interest Paid On Long-term Debt (Transportation Only).....	_____	

Debt Service Funds				
#	Title	Type	Fund Balance	
18			_____	
19			_____	
20			_____	
21			_____	
22			_____	
23	Escrow Account Balance		_____	

I do hereby certify that this statement is correct

_____ () _____
 Principal Accounting Officer Phone Number Date

Note: * Include all bonded debt except refunded bonds.
 ** This amount should agree with line 4
 *** Refunding bonds are also included in Bonded Indebtedness and Type of Bonds
 [1] For Questions on Column 2, please call Mike Kilanowski, MN Dept. of Transportation at (651) 366-4870 or email him at Michael.Kilanowski@state.mn.us

Minn. Stat. Section 471.70 requires that this form be completed and filed with the
 County Auditor on or before February first of each year.
 Amount Used For Transportation Required by FHWA Form-536

TOWNSHIP INDEBTEDNESS RECORD

DATE				
LOAN DESCRIPTION				
LOAN NUMBER				
FUND				
INTEREST RATE				
MATURITY DATE				
LOAN AMOUNT				
<u>DATE</u>	<u>TOTAL PAYMENT</u>	<u>PAYMENT ON PRINCIPAL</u>	<u>INTEREST PAYMENT</u>	<u>CURRENT PRINCIPAL</u>

TOWNSHIP INDEBTEDNESS RECORD

DATE	03/15/2010			
LOAN DESCRIPTION	ROAD GRADER			
LOAN NUMBER	8965			
FUND	ROAD & BRIDGE			
INTEREST RATE	0.065			
MATURITY DATE	12/31/2020			
LOAN AMOUNT	185,000.00			
<u>DATE</u>	<u>TOTAL PAYMENT</u>	<u>PAYMENT ON PRINCIPAL</u>	<u>INTEREST PAYMENT</u>	<u>CURRENT PRINCIPAL</u>
08/15/2010	10,000	3,987.50	6,012.50	181,012.50
03/15/2010	10,000	4,117.09	5,882.91	176,895.41

Township Indebtedness Issues

MAT 2010 Summer Short Course

- PAPER LEDGERS &/OR CARDS
 - RECORD PAYMENT IN DISBURSEMENTS
 - COLUMN FOR PRINCIPAL
 - COLUMN FOR INTEREST
 - RECORD AMOUNT OF PRINCIPAL PAID ON INDEBTEDNESS PAGE OR ON INDEBTEDNESS CARD
 - RECORD INTEREST PAID IN DISBURSEMENTS ONLY- NOT ON INDEBTEDNESS RECORD

Township Indebtedness Issues

MAT 2010 Summer Short Course

- CTAS
 - RECORD PAYMENT IN DISBURSEMENTS
 - PRINCIPAL: fund-47000-600
 - INTEREST PAID: fund-47000-610
 - RECORD PAYMENT ON PRINCIPAL IN INDEBTEDNESS MODULE

QUESTIONS?

