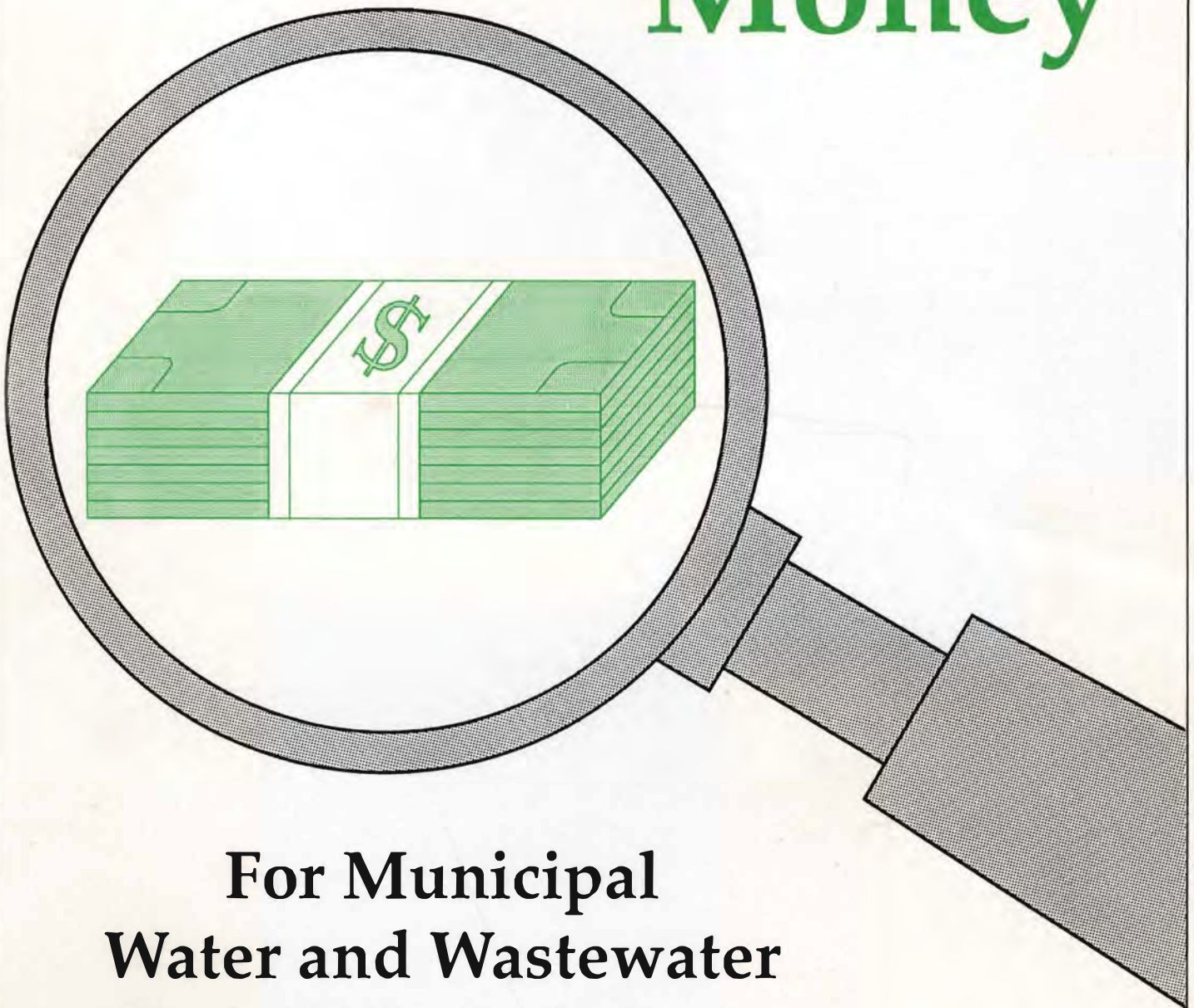


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Finding Money



**For Municipal
Water and Wastewater
Projects In Tennessee**

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Finding Money For Municipal Water and Wastewater Projects In Tennessee

The University of Tennessee
Municipal Technical Advisory Service

December 1990

Take A Look Inside...

to find out about the financing programs available for your city's capital improvement projects. Do you know the contact agencies? Advantages and disadvantages of the various programs? Terms? Do you know how to apply for funding? If not, this publication is for you. It's an overview of some of the various financing programs available to Tennessee's local governments for water, wastewater and other project needs.

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Farmers Home Administration

1

Farmers Home Administration (FmHA), an agency of the U.S. Department of Agriculture (USDA), administers loans for community facilities and grants for water and waste disposal facilities through nine district offices in Tennessee.

Contact

Chief of Community Programs
538 Federal Building
801 Broadway
Nashville, Tennessee 37203
(615) 736-7387
or
Farmers Home Administration, USDA
Washington, D.C. 20250

Who qualifies?

- 🔑 FmHA's Water and Waste Disposal Loans and Grants are for rural areas and towns of up to 10,000 people.
- 🔑 Priority consideration goes to communities with less than 5,500 people. Municipalities, counties, utility districts, Indian tribes and non-profit corporations are eligible for assistance.
- 🔑 Applicants must be: (1) unable to get funds from other sources at reasonable rates and terms; (2) legally able to borrow and repay, pledge security for loans and operate and maintain facilities and (3) financially sound and able to manage the facility effectively. The applicant's financial soundness must be based on taxes, assessments, revenues, fees or other satisfactory sources of income to pay all costs associated with the facility.

How are the funds used?

- 🔑 To construct, repair, improve, expand and modify rural water supply and distribution facilities and wastewater collection and treatment facilities.
- 🔑 To acquire a water supply or water right.
- 🔑 To pay legal, engineering and other costs associated with facilities development.
- 🔑 To finance facilities in conjunction with funds from other sources.

What are the terms?

- 🔑 Grants are available for up to 75 percent of the facility development costs.
- 🔑 Loan rates vary. They depend upon market rate and the community's income level and public health problems. Interest rates are lower for an applicant with an income below the nation's poverty level and in violation of a health regulation.
- 🔑 The loan is for a maximum of 40 years or the useful life of the facility, whichever is shorter.

How to apply

Contact the FmHA district office. FmHA district staff make preliminary determinations regarding engineering feasibility and economic soundness. If the project is viable for FmHA participation, staff help prepare the application. If FmHA provides financial assistance, staff make periodic oversight inspections.

When to apply

Application may be made at any time of the year.

Community Development Block Grants

3

The Community Development Block Grant (CDBG) program is federally funded. Nine cities and two counties in Tennessee receive CDBG funds directly from the federal government. Other Tennessee cities and counties may receive CDBG funds administered by the Tennessee Department of Economic and Community Development. Grants are for community livability, water/sewer/solid waste and housing/neighborhood revitalization projects.

Contact

Office of Program Management
6th Floor, Rachel Jackson State Office Building
320 Sixth Avenue North
Nashville, Tennessee 37219-5308
(615) 741-6201

Who qualifies?

- 🔑 All city and county governments in Tennessee qualify, except those cities over 50,000 population. Those cities receive funds directly from the federal government.
- 🔑 CDBG funds must: (1) benefit persons of low and moderate income, (2) eliminate or prevent slums and blight or (3) eliminate conditions detrimental to health, safety or public welfare.
- 🔑 Project selection criteria are objective and quantitative, based on community need for the project, feasibility and community economic level.

How are the funds used?

- 🔑 To construct, improve and extend water, sewer and solid waste facilities.
- 🔑 To provide community development services.
- 🔑 To rehabilitate housing and revitalize neighborhoods.

What are the terms?

- 🔑 The level of CDBG assistance is limited by the community's ability to pay.

- 🔑 Maximum grants are \$300,000 for community livability projects and \$500,000 for water/sewer/solid waste and housing rehabilitation/neighborhood revitalization projects.
- 🔑 Grants to one applicant cannot exceed \$750,000 for two successive years.
- 🔑 A previous year's grant must be 75 percent depleted by the next year's application due date.

How to apply

Obtain application forms from the program manager. The application requires a project description, financial information, federal compliance information and engineering information. Get help from the CDBG program management staff, the local development district office and your consulting engineer to complete the application.

When to apply

Applications are due by the annual date set by the program manager.

Tennessee State Revolving Fund

5

The Tennessee State Revolving Fund (SRF) is sponsored by the federal and state governments. The U.S. Environmental Protection Agency awards grants to establish the fund and the state provides a 20 percent matching grant. The SRF provides low-cost loans to local governments for wastewater facilities only. The program is intended to be self-sustaining after 1994, when federal sponsorship ends.

Contact

Division of Construction Grants and Loans
Tennessee Department of Health and Environment
150 Ninth Avenue North, Third Floor
Nashville, Tennessee 37247-3301
(615) 741-0638

Who qualifies?

 The Tennessee Department of Health and Environment Division of Construction Grants and Loans maintains a numerical listing by priority points for all wastewater facilities projects. Municipalities, counties and utility districts on the state priority ranking list are eligible for loans.

 Applicants must pledge security for repayment of loans, agree to adjust user fees as needed to cover repayments, agree to maintain financial records in accordance with governmental accounting standards, comply with a plan of operations and provide other requested assurances.

How are the funds used?

To plan, design and construct wastewater facilities and to buy equipment. Projects may be treatment plants, pump stations, collector sewer lines, interceptors, sewer line replacements, sewer line repairs and remedies for non-point source pollution problems.

What are the terms?

 Priority goes to projects in order of ranking on the state list. During the first quarter of the state fiscal year, the Division of Construction Grants and Loans funds ready-to-go projects in priority order. After the first quarter, loans may be made to any local government on the list. The maximum loan term is 20 years or the design life of the facility, whichever is shorter.

- 🔍 Interest rates are from 0 percent to market rate, depending on the community's per capita income, taxable sales and taxable property values. Most borrowers qualify for interest rates of 2 to 4 percent. Rates are fixed for the life of the loan.
- 🔍 The loan amount is limited only by the local government's borrowing capacity. There is no maximum or minimum.

How to apply

- 🔍 Contact the Division of Construction Grants and Loans office for application packages that include the application form, loan agreement, financial statement forms and forms for user charge information. Loans are recommended for approval by the Division of Construction Grants and Loans to the Tennessee Local Development Authority Board.
- 🔍 Since federal funds are used, facility planning documents, environmental review, a sewer use ordinance, project inspection, federal wage rates and opportunity for minority business participation are required.

When to apply

Application may be made at any time of the year.

Tennessee Wastewater Construction Grant Program

7

The Tennessee Wastewater Construction Grant Program is sponsored by the Tennessee Department of Health and Environment to provide financial assistance to plan, design and construct local wastewater treatment facilities.

Contact

Division of Construction Grants and Loans
Tennessee Department of Health and Environment
150 Ninth Avenue North, Third Floor
Nashville, Tennessee 37247-3301
(615) 741-0638

Who qualifies?

Municipalities, counties and utility districts which have received a State Revolving Fund (SRF) loan for wastewater facilities construction may be eligible to receive an SRF assistance grant. Grant eligibility is limited to low-income communities with a population of 3,500 or less.

How are the funds used?

To construct wastewater facilities only. This program does not fund other project costs. Projects may be treatment plants, pump stations, collector sewer lines, interceptors and sewer line repairs and replacements.

What are the terms?

SRF assistance grants are awarded only after a community receives an SRF construction loan. The amount of the SRF assistance grant is 20 percent of the SRF loan construction costs, but not more than \$500,000.

How to apply

Contact the Division of Construction Grants and Loans office for application information.

When to apply

Application may be made at any time of the year.

Utility Relocation Loan Program

8

The Utility Relocation Loan Program was established by state lawmakers in 1989. Its purpose is to provide loans for cities and utility districts that must relocate utilities due to Tennessee Department of Transportation road projects.

Contact

Division of Construction Grants and Loans
Tennessee Department of Health and Environment
150 Ninth Avenue North
Nashville, Tennessee 37247-3301
(615) 741--0638

Who qualifies?

- 🔑 Municipalities and utility districts relocating utilities because of a Tennessee Department of Transportation road project.
- 🔑 Applicants must demonstrate that they are unable to obtain other financing for the utility relocation project.

How are the funds used?

For costs associated with relocating utilities.

What are the terms?

- 🔑 Loans cannot exceed 10 years.
- 🔑 An interest rate of 0 percent for the first five years. The interest rate is equivalent to the rate of return received by the state treasurer on the state cash pool for the second five years.
- 🔑 There is no limit on the amount an applicant can borrow, but the loan program receives state appropriations of only \$1.5 million each year.

How to apply

- 🔑 Submit an application containing: (1) a letter from the applicant, (2) a letter from the Tennessee Department of Transportation describing the project and requiring relocation of utilities, (3) an engineering report with cost estimates and estimated construction time, (4) cash flow projections, (5) evidence that applicant is unable to obtain other financing and (6) three years of audited financial statements.

- 🔑 Application packages are processed on a first come, first served basis.
- 🔑 Ready to proceed applications are reviewed by the Utility Management Review Board. If acceptable, they are recommended to the State Funding Board for approval.

When to apply

Application may be made at any time of the year.

Program and Address	Description
Federally Sponsored and Administered	
Farmers Home Administration 801 Broadway, 538 Federal Building Nashville, Tennessee 37203 (615) 736-7387	Grants and loans for water and sewer projects in rural communities; grants up to 75 percent; loans are at market rate and up to 40 years.
Federally Sponsored and State Administered	
Community Development Block Grants Tennessee Department of Economic and Community Development 320 Sixth Avenue North, Sixth Floor, Rachel Jackson Building Nashville, Tennessee 37219 (615) 741-6201	Grant program to benefit persons of low and moderate income; eliminate blight or eliminate conditions detrimental to health; assistance limited by ability to pay; maximum \$500,000 grant for water, sewer and solid waste projects.
Tennessee State Revolving Fund Division of Construction Grants and Loans Tennessee Department of Health and Environment 150 Ninth Avenue North Nashville, Tennessee 37247 (615) 741-0638	Loan program for wastewater projects only; maximum loan term is 20 years; interest rate is based on ability to pay -- about half the market rate for most communities.
State Sponsored and Administered	
Tennessee Wastewater Construction Grant Program Division of Construction Grants and Loans Tennessee Department of Health and Environment 150 Ninth Avenue North Nashville, Tennessee 37247 (615) 741-0638	Grant program for construction of wastewater projects only; State Revolving fund (SRF) assistance grant awarded only after a community receives and SRF construction loan.
Utility Relocation Loan Program Division of Construction Grants and Loans Tennessee Department of Health and Environment 150 Ninth Avenue North Nashville, Tennessee 37247 (615) 741-0638	Loan program for relocation of utilities due to Tennessee Department of Transportation road projects.
Tennessee Local Development Authority Division of Bond Finance Sixteenth Floor, James K. Polk Building Nashville, Tennessee 37219 (615) 741-4272	Pooled loan program for all types of capital projects; loan period is 30 years maximum; monthly payments required; interest payments only during construction.
Tennessee Industrial Infrastructure Program Tennessee Department of Economic and Community Development 320 Sixth Avenue North, Sixth Floor, Rachel Jackson Building Nashville, Tennessee 37219 (615) 741-6201	Grants and loans for infrastructure improvements and job-specific training; purpose is to locate, expand or retrain jobs in Tennessee; grants are based on ability to pay; grants range from 60 to 100 percent with the maximum grant at \$1 million.
Other	
Tennessee Municipal Bond Fund 226 Capitol Boulevard Building, Suite 710 Nashville, Tennessee 37219 (615) 255-6416	Loans for any capital need; program has variable interest rate with option to convert to fixed rate; loan term is up to 20 years; because of issuance fees, this program is recommended for loans of more than \$500,000.
Tennessee Municipal Bond Fund Alternative Loan Program 226 Capitol Boulevard Building, Suite 710 Nashville, Tennessee 37219 (615) 255-6416	Loans for any capital need; program suitable for loans less than \$1 million; maximum term is 12 years; interest rate is about 70 percent of prime.
Municipal Bonds Contact any financial institution that provides expertise in municipal bonds. Information in this publication provided by Third National Bank, Nashville.	Traditional source of financing municipal capital projects; recommended for projects of more than \$1 million and debt service period of 12 or more years.

at a Glance

Advantages	Disadvantages
Grants are available; loans are long term; funds can be used in conjunction with funds from other sources; technical assistance is available from Farmers Home Administration.	Priority goes to communities with less than 5,500 population; applicant must be unable to borrow from other sources; process time may be long.
Grant program; definite selection criteria; funds can be used in conjunction with funds from other sources; technical assistance available from Community Development Block Grants Program.	Limited grant funds; not applicable for mid- and upper-income communities; grants cannot exceed \$750,000 for two successive years; applicants accepted only once a year.
Loans can be used for planning, design, construction, and equipment purchases; there is no maximum or minimum loan amount; technical assistance is available from the Division of Construction Grants and Loans and The University of Tennessee Municipal Technical Advisory Service; can apply at any time.	Community must be on state's priority ranking list; loan amount is limited by the borrowing capacity of the local government; federal rules and regulations apply; process time is long.
Grant funds; technical assistance is available from the Division of Construction Grants and Loans and The University of Tennessee Municipal Technical Advisory Service; can apply at any time.	Applicant must first receive a State Revolving Fund (SRF) construction loan; grant limited to 20 percent of the SRF loan or \$500,000; long process time.
An interest rate of 0 percent for the first five years; no limit on amount applicant can borrow.	Only \$1.5 million per year available for entire state; applicant must be unable to borrow from another funding source; maximum loan term is 10 years.
Loan period is 30 years maximum; can prepay loan prior to long-term debt issuance; amount limited only by local government's borrowing power.	User rate sufficient to cover operation, maintenance, replacement and debt service required; reserve fund required; bond issuance fees required; loan must be covered by state-shared taxes and/or reserves; long review and approval process.
Grants available for up to 100 percent; funds may be used for architect and engineering services as well as construction; definite selection criteria; technical assistance is available from the Department of Economic and Community Development.	Project must demonstrate it will locate, expand or retain jobs or provide job-specific training.
Maximum loan amount limited only by applicant's credit worthiness; program not subject to arbitrage rules under 1986 Tax Reform Act; quick processing time; assistance available for the Tennessee Municipal Bond Fund.	Issuance fees make this attractive only for applicants who need to borrow more than about \$500,000; applicant must be a member of the Tennessee Municipal League.
Interest rate may be fixed or variable; no application costs; quick processing time (30 days); assistance available from the Tennessee Municipal Bond Fund.	Term is for 12 years maximum; nominal legal fee required upon closing; applicant must be a member of the Tennessee Municipal League.
Unlimited source of money; rates dependent on applicant's credit rating and on market conditions; quick processing for applicants who have issued bonds previously.	Applicant must be ratable; costs related to bond issuance are 1-3 percent of total bond issue; processing time up to six months for first-time issuers; need expert financial and legal advise.

Tennessee Local Development Authority

12

The Tennessee Local Development Authority (TLDA) loan program was established by state lawmakers in 1978. Its major purpose is to make loans to local governments for water, sewer and solid waste projects. Loans also can be made for purposes such as airports, capital projects and rural fire-fighting equipment. In 1990, the law was amended to let TLDA issue bonds and make the proceeds available for loans to local governments for other capital projects.

Contact

Division of Bond Finance
16th Floor, James K. Polk Building
Nashville, Tennessee 37243-0273
(615) 741-4272

Who qualifies?

County governments, metropolitan governments, incorporated towns or cities and any special districts may borrow money from TLDA for water, wastewater, solid waste and other capital improvements.

How are the funds used?

- ✎ For water, wastewater and solid waste projects approved by the Tennessee Department of Health and Environment.
- ✎ For other capital projects approved by other state agencies before final TLDA processing.

What are the terms?

- ✎ The local government must adopt user rates to cover all costs of operation and maintenance, including debt service and depreciation.
- ✎ The local government must authorize the loan and pledge taxes to back the loan in case of deficiency.
- ✎ The loan must be backed by sufficient state-shared taxes and by reserve funds set aside by the borrower.
- ✎ Monthly payments are required. Interest only is required during construction. Principal repayment begins when the project is operational or when 90 percent of the construction cost is depleted, whichever occurs first.

🔍 The loan period is 30 years or the useful life of the project, whichever is less.

🔍 The interest rate prior to issuing the bond varies. For the past several years, funding for this program has been based on one-year notes. Since the interest rate to the borrower is based on the interest rate of the notes, it can fluctuate from year to year.

🔍 The cost of issuing the bond is approximately 2 percent.

🔍 A reserve fund is required.

🔍 The local government can prepay a TLDA loan prior to issuing the bond, but cannot prepay after TLDA issues the bond.

How to apply

🔍 Submit water, sewer and solid waste projects to Tennessee Department of Health and Environment for approval; submit other types of projects to the appropriate state agency for approval.

🔍 Tennessee Department of Health and Environment (or appropriate state agency for projects other than water, sewer or solid waste) notifies TLDA of technical feasibility and the local government's interest in a TLDA loan.

🔍 TLDA contacts the local government for financial information. A meeting may be necessary.

🔍 The local government completes TLDA's loan application and passes a resolution authorizing the loan request.

🔍 After approval by the Tennessee Department of Health and Environment, the loan package is reviewed by the Division of Bond Finance and is then presented to the TLDA board at a public meeting for approval.

🔍 After TLDA board approval, the loan is sent to the Tennessee attorney general for approval.

🔑 During construction, pay requests from the local government are sent to the state agency that originally approved the project. The agency (for example, Tennessee Department of Health and Environment for water, sewer and solid waste projects) reviews and certifies payment requests to the Division of Bond Finance. Loan repayments are sent to the Division of Bond Finance from the local government.

When to apply

Application may be made at any time of the year.

Tennessee Industrial Infrastructure Program

15

In 1988 the Tennessee General Assembly appropriated \$50 million to the Department of Economic and Community Development (ECD) for the Tennessee Industrial Infrastructure program (TIIP). These funds are for grants and loans to local governments and businesses for job creation or retention.

Contact

Department of Economic and Community Development
Office of Program Management
6th Floor, Rachel Jackson State Office Building
320 Sixth Avenue North
Nashville, Tennessee 37219-5308
(615) 741-6201

Who qualifies?

County governments, municipal governments and utility districts.

How are the funds used?

- 🔑 For infrastructure improvements and job-specific training.
- 🔑 For activities normally provided by local governments and for eligible businesses locating, expanding or operating in Tennessee. These activities include: water systems, wastewater systems, transportation systems, site improvements, electrical and natural gas systems and other improvements to physical infrastructure.
- 🔑 Eligible manufacturers and businesses: (1) export more than half their product from Tennessee, (2) have more than half their product or service used to make exported products or (3) conduct operations that result in the replacement of imported products or services with those produced in Tennessee.
- 🔑 Funds cannot be used for speculative projects. Their use requires a commitment by new businesses to locate or existing businesses to expand in Tennessee.
- 🔑 Other economic activities may be supported by TIIP funds if the ECD commissioner determines they have a beneficial impact on Tennessee's economy.

What are the terms?

- 🔍 Grant rates for TIIP are based on ability to pay. The ability to pay index is used for municipal and county governments.
- 🔍 Grant rates range from 60 to 100 percent.
- 🔍 The maximum TIIP grant is \$1 million, except grants for site preparation, which are limited to \$500,000.
- 🔍 The grant amount for architect and engineering services varies depending on the type of project.
- 🔍 Each project must be ready to start within six months of grant approval.

How to apply

- 🔍 Get application forms from the program manager. The application requires community information, business information, a statement of how the project will impact the community, a preliminary engineering report and evidence that non-TIIP funding is or will soon be in place.
- 🔍 Applications are reviewed in two phases. Phase 1 concentrates on the physical improvements. ECD will send copies of the application to the responsible state agency, for example, Tennessee Department of Health and Environment for water and sewer projects and Tennessee Department of Transportation for transportation improvement projects. Other projects are reviewed for physical improvements by ECD staff. Phase 1 concentrates on project purpose, design and cost-effectiveness.
- 🔍 Phase 2 concentrates on the impacted business. Specifically, Phase 2 covers the business's management capability and commitment to this project, cash flow status, sales projections and industry trends.
- 🔍 Following Phase 1 and 2 review, staff recommendations are submitted to the ECD Loan Committee for review and discussion. The ultimate responsibility for approving or disapproving the grant rests with the ECD Commissioner.

When to apply

Application may be made at any time of the year.

Tennessee Municipal Bond Fund

17

The Tennessee Municipal League (TML) is composed of Tennessee cities and professional staff. One of its programs is a bond fund to provide municipalities with low-cost loans for construction projects, equipment purchases and other capital needs.

Contact

Tennessee Municipal Bond Fund
Suite 710
226 Capitol Boulevard
Nashville, Tennessee 37219
(615) 255-6416

Who qualifies?

The TML began this program for the benefit of its member cities. The program allows cities to benefit from low interest rates and to share the expenses of issuing bonds.

How are the funds used?

-  To construct streets, roads, public buildings and water and sewer projects.
-  To acquire existing water and sewer facilities, electric utilities and land.
-  To purchase automobiles, trucks, construction equipment, computers, telephone systems, furnishings, utility equipment, traffic control equipment and street lighting.

What are the terms?

-  Tennessee Municipal Bond Fund I was funded for \$120 million in 1985. Tennessee Municipal Bond Fund II, a \$75 million bond issue, was funded in 1990. Bond Fund II was planned before the Federal Tax Reform Act of 1986 changed arbitrage rules. Therefore, Bond Fund II qualified, under a technical corrections bill, to go to market under old arbitrage rules. The difference is significant. Under old arbitrage rules, a city can borrow money from the bond fund, invest it and earn interest on it without restrictions. Under the Tax Reform Act of 1986, earnings on arbitrage are restricted.
-  The bond issue is co-managed by two Tennessee banks.

- 🔑 The interest rate is variable with an option to convert to a fixed rate.
- 🔑 The loan term is one to 20 years.
- 🔑 Borrowing costs are based on credit worthiness, type of interest rate, amount of the loan and other factors.
- 🔑 Because bond insurance premiums are independent of the loan amount, this program is best suited for loans greater than \$500,000.

How to apply

- 🔑 Contact the Tennessee Municipal Bond Fund office for application forms. Provide information on the purpose of the project and financial data.
- 🔑 At the closing, the applicant executes a loan agreement in the amount of the funds requested plus borrowing costs.

When to apply

Application may be made at any time of the year.

Municipal Bond Fund Alternative Loan Program

19

The Tennessee Municipal Bond Fund Alternative Loan Program is a special financing arrangement established by the bond fund with Third National Bank. The Alternative Loan Program was developed to assist Tennessee Municipal League (TML) member cities whose financing needs do not fit the Tennessee Municipal Bond Fund loan program.

Contact

Tennessee Municipal Bond Fund
Suite 710
226 Capital Boulevard
Nashville, Tennessee 37219
(615) 255-6416

Who qualifies?

TML member cities are eligible.

How are the funds used?

-  To construct streets, roads, public buildings and water and sewer projects.
-  To acquire existing water and sewer facilities, electric utilities and land.
-  To purchase automobiles, trucks, construction equipment, computers, telephone systems, furnishings, utility equipment, traffic control equipment and street lighting.

What are the terms?

-  This program is suitable for loans of \$1 million or less.
-  The maximum repayment period is 12 years.
-  The municipality's capital outlay notes are purchased for 70 percent of the prime rate for a variable rate loan.
-  The interest rate is either fixed or variable.
-  There are no application costs. However, if an application results in a loan closing, there is a legal fee, usually between \$500 and \$1,000.

🔑 Application processing time is about 30 days.

How to apply

Obtain an application from the Tennessee Municipal Bond Fund office. Third National Bank will provide debt service schedules.

When to apply

Application may be made at any time of the year.

Municipal Bonds

Private financial institutions are a traditional source of funding for municipal public works. This information was provided by Third National Bank, Nashville, Tennessee.

Contact

Go to a local financial institution with public finance expertise. Look for a full-service institution that can:

- (1) analyze a local government's current financial condition and develop projections of future performance;
- (2) develop capital facilities plans and assess current needs;
- (3) prepare detailed plans for debt issues and coordinate timing with project requirements;
- (4) assist in selection of bond counsel and preparation of notices, resolutions and other documentation;
- (5) prepare and arrange for printing preliminary and final official statements;
- (6) analyze need for and assist with bond insurance, letter of credit or other credit enhancements;
- (7) make presentations to rating agencies or bond insurers;
- (8) advise on selection of a financial institution to act as registrar, paying agent or trustee;
- (9) advise as to proper timing of bond sale, prepare the advertisement and distribute official statements to prospective investors;
- (10) arrange for printing, proof of authenticity and delivery of bonds at closing;
- (11) assist the issuer and bond counsel and
- (12) advise issuer on the best investment plan for bond proceeds.

The various types of municipal bonds include general obligation bonds, special tax bonds, revenue bonds, industrial revenue bonds and double-barrel bonds. General obligation bonds are backed by the full faith and credit of the municipality. The municipality pledges its full taxing authority as collateral for payment of the loan. Special tax bonds are financed from special taxes created specifically to pay off the bond. Revenue bonds are contingent upon receipts from specific sources such as water sales or sewer service revenues. Industrial revenue bonds are used to finance the building of an industrial facility to be leased to an industry. The lease money is pledged to pay off the bond. A double-barrel bond is backed by collateral from at least two sources. For example, revenues from water sales and the full taxing authority of the municipality could be pledged as collateral for a double-barrel bond.

Who qualifies?

- 🔍 Any local government authorized to incur debt.
- 🔍 Local governments should generally consider using bond issues for large, long-term debt -- over \$1 million and longer than 12 years.
- 🔍 Applicants must be credit worthy or insurable. In other words, they must be ratable by a recognized rating agency such as Moody or Standard and Poore.

How are the funds used?

Bonds are an unlimited source of money. The local government determines maximum amount of the bonds. They are sometimes used to complement funding from other sources, particularly grant funding.

What are the terms?

- 🔍 From 1984 through 1989, interest rates for Aa-rated bonds varied from 9.8 percent to 6.3 percent.
- 🔍 Applicants must be aware of how federal tax law affects bond issues.
- 🔍 Applicants should consider the costs associated with issuing bonds, such as legal, insurance, publications and advertising notices, printing, rating agency, bond registration and financial advice. These costs are usually 1 to 3 percent of the bond issue.
- 🔍 The borrower can lower the interest rate by reducing the amount borrowed; shortening the payback period; taking advantage of arbitrage allowed by federal tax laws and enhancing credit worthiness. It is advisable to get legal help on arbitrage and insurance.
- 🔍 It takes about six weeks to issue bonds for a local government that has been through the process before and has established credit. If the local government has not issued bonds previously, the process takes eight weeks to six months.
- 🔍 It is important to involve a financial adviser early in the process.

 Pitfalls local governments face in issuing bonds include: (1) user rates insufficient to cover debt service; (2) costs incurred on the project before the bond issue may not be covered; (3) inaccurate record-keeping during the project and (4) use of bond money for other than the stated purpose.

How to apply

Using the selection steps found on page 24, choose a full-service financial institution to assist in all phases of issuing municipal bonds.

When to apply

Application may be made at any time of the year.

Selecting Professional Financial Services

24

Study project details.

- 🔍 Before the selection process, define the project. Think it through in detail, know time constraints and have a budget in mind.

Solicit information.

- 🔍 Begin the selection process with an invitation to submit information. Use public announcements, direct requests to pre-qualified firms and discussion with other cities.

Think expertise, not cost.

- 🔍 Don't select a firm on the basis of lowest cost! Use competition based on qualifications. Weigh financial services based on competence, creativity and performance first and cost second.

Review qualifications.

- 🔍 When reviewing qualifications, consider technical expertise, experience with similar projects, reputation with existing clients, workload, financial stability and factors peculiar to your project.

Narrow the field.

- 🔍 After reviewing qualification statements, short-list to the few most qualified firms and schedule separate presentations.

Hear presentations.

- 🔍 Select a committee or use the entire council to hear presentations from each firm. Listen for and ask questions about project elements such as time schedules, qualifications of personnel the firm would assign to the job, the location of the firm and the firm's creativity. Does it use the same solutions over and over again?

Rank the firms.

- 🔍 After the presentations, rank the firms in order of preference. It's helpful to use prepared score sheets.

Negotiate.

- 🔍 Next, begin negotiations with the top-ranked firm. If negotiations fall apart, go on the second firm and so forth. During the negotiations, discuss the scope of the work in detail, how long the firm needs to do the work, what personnel will be assigned and how the fee will be established. What services are included in the fee? Will there be any extra costs? Fees customarily are established as salary cost times a multiplier, plus direct non-salary expense; cost plus a fixed fee; a lump sum or a percentage of the project cost.

Draw up agreement.

- 🔍 When negotiations are finalized, you're ready for an agreement, which should be in writing. Let the city attorney draft the agreement. Be sure it has a definite statement of work, and includes the sum to be paid, the method of payment and a termination clause. Finally, be aware of your city's responsibilities.

**Municipal Technical Advisory Service
The University of Tennessee
600 Henley Street
Suite 120
Knoxville, Tennessee 37996-4105**

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