

## Local Government Public Obligations Act

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We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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## Local Government Public Obligations Act

Reference Number:  
MTAS-557

The Local Government Public Obligations Act of 1986 is both comprehensive and flexible. It provides relatively straightforward procedures for local governments to borrow money for almost any reasonable public works project. In addition to the general provisions in Part 1 and Part 4, the legislation contains the following parts relevant to cities:

- Part 1: General provisions applicable to all bonds and notes issued by local governments.
- Part 2: General Obligation Bonds – When issuing general obligation bonds, a governing body pledges the "full faith and credit" of the city. Bond buyers are promised that the taxes necessary to pay off the bonds will be raised.
- Part 3: Revenue Bonds – Revenue bonds do not pledge full faith and credit of the city. They promise bond holders payment from the income of a revenue-generating facility, such as a water system, or from an earmarked revenue source, such as a city's local option sales tax.
- Part 4: General provisions governing the issuance of all notes by local governments. This part was amended to require budget approval for any debt issued in accordance with the Act.
- Part 5: Bond Anticipation Notes – Notes are used for shorter-term debt. Anticipation notes are issued when a city wants to delay issuing bonds until the costs of several projects can be added together into one bond issue or until the bond market changes and long-term interest rates decline.
- Part 6: Capital Outlay Notes – These notes are used to borrow money for intermediate periods of from one to 12 years.
- Part 7: Grant Anticipation Notes – Some federal grants require a city to spend its own money to carry out a project, then apply for reimbursement. These notes allow the city to borrow funds for the front-end costs.
- Part 8: Tax Anticipation Notes – Some jurisdictions that do not maintain adequate reserves have to borrow operating funds each year to get through the lean months before annual property tax payments are received.
- Part 9 and 10: Refunding Bonds – Sometimes cities have to sell bonds when interest rates are high. If rates drop significantly a few years after the bonds are sold, refunding procedures allow the community to issue new bonds at the lower interest rate and use money borrowed with the new bonds to pay off the old, high-interest debt.

### **Debt Limit**

There is no debt limit under the act. "Bonds or notes may be issued under this chapter notwithstanding and without regard to any limit on indebtedness provided by law". T.C.A. § 9-21-103.

### **Allowable Projects**

The definition section of the act has a long list of allowable public works projects, including everything from abattoirs to zoos. The list and the accompanying catchall provisions should cover most projects a community may want to fund. T.C.A. § 9-21-105(21). If a city has used available funds to start a public works project, a bond issue may include money to replace those funds. T.C.A. § 9-21-109.

### **Powers of Local Governments**

The act includes a comprehensive list of local government powers to issue debt, use the borrowed money, and pay the obligation. Cities are authorized to undertake bond-funded projects with other local governments and with the state or federal governments. They may levy taxes on only a portion of the city to finance a project that benefits only that portion of the community. They may establish fees, tolls, or other charges and promise their bondholders that the revenue will be earmarked to pay off the debt. The act also includes authority to lease public works projects. Cities may use this authority to structure public/private partnership agreements. T.C.A. §§ 9-21-107, 214.

### **Limitations on Local Governments**

The act provides that "no local government shall engage in the construction of a public works project wholly or partly within the legal boundaries of another local government...except with the consent of the governing body of the other local government..." T.C.A. § 9-21-107(1).

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