
Chapter 8 Contents

Section 1 – Financing of Library Projects

**SECTION 1
FINANCING OF LIBRARY PROJECTS**

A) GENERAL

When government units need funds to finance projects or working cash needs, they may do one or more of the following:

- Issue long-term bonds or short-term notes.
- Finance items through a vendor using an installment purchase contract.

Long-term bonds for libraries may be issued directly by the municipality, or through a financing conduit such as a building authority.

Refer to the Municipal Finance Act, MCL 131.

B) FINANCING LIMITATIONS

Ability to issue bonds varies depending on the type of library as noted below:

1. City, village and school district libraries - Bonds cannot be issued unless approved by the local legislative body (city, village or school district) and the body entrusted with management of the library (local library board, commission or other authorized body).

Upon the concurrent approval of the local legislative body and the management body, the city, village, or school district must issue long-term bonds on behalf of the city, village or school district library.

The amount borrowed cannot exceed $\frac{1}{4}$ of 1 percent of the assessed valuation of such city, village or school district. Previous library bonds issued (outstanding portion) or bonds authorized shall be included in the limitation calculation.

Other restrictions apply. Refer to Public Act 305 of 1919, MCL 397.241 through 397.246 for more detailed information.

2. District Libraries - Bonds can be issued directly by a district library as authorized by the board and are debt of the district library and not of the participating government units, if any.

The amount borrowed (bonds, notes, etc.), together with total outstanding debt of the district library, cannot exceed 5 percent of the state equalized value of the taxable property within the district.

Other restrictions apply. Refer to Public Act 265 of 1988, MCL 397.281 through 397.290 for more detailed information.

3. Township Libraries – Bonds can be issued directly by a township library as authorized by the township board.

The amount borrowed cannot exceed 1 percent of the assessed valuation of the township.

Other restrictions apply. Refer to Public Act 5 of 1917, MCL 397.321 through 397.326.
4. Other Public Libraries – Financing subject to Public Act 202 of 1943, Municipal Finance Act, MCL 131.

Whether a vote of the people is required in order to issue bonds is dependent on a variety of factors, including, but not limited to, type of debt and intended source for repayment of debt. Libraries should contact legal counsel in regard to this matter.

C) TYPES OF FINANCING

Discussion is limited to financing available to libraries.

1. Long-term Bonds – Long-term bonds are generally used for purchase of sites for libraries, for construction of libraries or for additions or improvements to existing libraries.

Almost all government units use a paying agent when issuing bonds. Under this system, the government unit makes its semiannual payment to the paying agent rather than directly to each bondholder (typically interest is paid twice a year and principal once a year). The paying agent then is responsible for paying each individual bondholder.
2. Anticipation Notes (Tax, grant or bond anticipation notes) – Anticipation notes are short-term notes that provide temporary cash flow assistance. The property tax revenue/grant revenue/bond proceeds of the government unit is pledged as collateral on these notes. These notes would generally be shown as liabilities of the receiving fund (typically general fund or special revenue fund), rather than of the long-term debt group of accounts.

Tax anticipation notes are generally used to obtain operating funds pending receipt of tax revenue in cases of a newly established library. The state allows tax anticipation notes only if you can show a cash flow deficit within the short-term operating period.

Grant anticipation notes would be used when a municipality has an approved grant but is incurring expenditures prior to the expected receipt of the grant proceeds.

Bond anticipation notes would be used when a governmental unit has plans to issue a bond, however, they are incurring the initial expenditures related to a project prior to the sale of the bonds.
3. Installment Purchase Contracts – Sometimes referred to as capital leases or financing leases, these are simply contracts that allow the vendor to finance the purchase of a capital asset. These contracts typically have unfavorable interest rates. However, they are simple to accomplish and have no costs of issuance (as compared to a bond issue that requires an attorney to assist with the maze of rules to follow and sometimes has substantial cost of issuance attached to it).

4. Building Authority Bonds – This is a type of financing that government units can use to finance construction of new facilities. A new authority is created (the building authority) that issues the bonds and builds the facility (such as a new library) and then leases the facility to the government unit (in most recent instances, the amount of the lease payment exactly equals the amount of the debt service on the building authority bonds). At the end of the lease, which typically corresponds to the final bond payment, title to the property usually will pass to the lessee.

Even though the building authority is technically a separate authority from the government unit, it is generally considered to be part of the government unit for financial statement purposes. Therefore, the building authority bonds are reported in a government unit's general purpose financial statements. A building authority bond may be either a general obligation or a revenue bond (see discussion below).

D) LEVEL OF COMMITMENT

The level of the government unit's commitment related to library bonds may be one of the following:

- A general obligation
 - Limited to specific revenue (e.g. a "revenue bond")
1. General Obligation Debt – General obligation debt is any debt (bond issue or other contractual obligations such as a financing lease, etc.) in which the local government unit pledges its full faith and credit. Before the Headlee Amendment in 1975, a government unit could issue a general obligation bond, which would commit the community as a whole insofar as the community could then raise its property tax to pay for the debt service on such bonds without a vote of the people. Since the Headlee Amendment said that communities could not commit the full faith and credit without a vote of the people, "limited tax general obligation" bond issues now commit the full faith and credit of the community "as limited by the laws under the State of Michigan." What this means is that the community cannot raise its property taxes above its charter or statutory limit without a vote of the people to pay for this debt service. Communities may use preexisting property tax millages to pay for this debt service, which may result in reductions of other expenditures.
 2. Revenue Bond – This is a bond that pledges all revenue from a specific project to be used to pay the debt service on these bonds. In other words, if the revenue from this specific project is not sufficient to pay the debt service requirement, then the community as a whole is not obligated to do so. This bond is riskier, of course, for the bondholder, so there is generally a higher interest rate attached to this. You would see this type of bond mainly with construction of water and sewer lines, or for the purchase or construction of significant recreation facilities (e.g. golf course or ice rink).

E) QUALIFYING STATEMENT

Public Act 34 of 2001 provides for municipalities to file an annual qualifying statement that will, if they qualify, exempt them from further approval prior to issuing a municipal security for the next year. If they do not qualify, they will continue to be required to obtain approval from the Michigan Department of Treasury prior to the issuance of each municipal security. Fees related to the issuance of municipal securities will be based upon the amount of the security. The new process is intended and anticipated to streamline the process for those fiscally responsible municipalities that meet the qualifying criteria established in the act and to allow the Michigan Department of Treasury to concentrate their efforts on those municipalities requiring additional oversight.

To qualify to issue a municipal security without the prior approval of the Michigan Department of Treasury a municipality must be in compliance with several requirements such as:

- Not operating under the Local Government Fiscal Responsibility Act
- Did not issue securities in recent years under the Emergency Municipal Loan Act or Fiscal Stabilization Act
- Was not delinquent in submitting its audit report
- Was not in excess of statutory or constitutional debt limits
- Did not have any outstanding debt that was not authorized by statute
- Was not in default on any outstanding debt issues
- Was not delinquent in submitting withheld payroll taxes, pension, retirement or benefit plan contributions
- Did not have deficits in any fund, unless there is an acceptable deficit elimination plan

The above is a summary of major provisions of the new Municipal Finance Act; you should consult your legal counsel for a complete analysis of the requirements of the Act.

The Michigan Department of Treasury anticipates that the annual qualifying statement will be completed online.

If a municipality does not qualify with the provisions of the revised act, approval will be required from the Michigan Department of Treasury prior to the issuance of debt.