A community that desires to finance a project must do so according to state law. A financing, or “obligation,” is narrowly defined as bonds or notes. Hence, financing primarily takes the form of bond issues with the exception of installment purchase contracts.

The following is a listing of commonly used bond issue formats. This is intended as an introduction to, and workable outline for, bond financing in Michigan. For a complete understanding, a community should consult its financing professionals, which include bond attorney and financial advisor.
**UNLIMITED TAX GENERAL OBLIGATION (UTGO)**

UTGO Bonds are voted issues and are considered by the market to be the most secure and most preferred form of financing. A voted issue can be for a wide variety of public purposes. Because it is the most secure option, a UTGO bond will typically produce the lowest net interest rate of any open market bond option. The ballot language may limit the application to one bond issue or a “series” of bond issues for the completion of a project, and is capped by a dollar amount. The ballot language must include an estimation of the simple average millage rate over the life of the issue and the estimated millage rate for the first year levy. The ballot may specifically cap the number of mills, but has the effect of making the issue “limited” tax in designation, and is seldom recommended.

**LIMITED TAX GENERAL OBLIGATION (LTGO)**

There are several choices that allow for a LTGO pledge. The pledge would be a first budget obligation of the general fund, but is only allowed to the charter or statutory millage limit. Often a referendum period is required for the pledge. The following are possible LTGO bonds for constructing a facility:

**Capital Improvement Bonds** (Act 34 of 2001):
This allows a county, city, village or township to issue bonds for a wide variety of public purposes including municipal facilities. A 45-day referendum period is required. The aggregate amount of Capital Improvement Bonds may not exceed 5 percent of SEV.

**Building Authority Bonds** (Act 31 of 1948):
Previous to Act 34 of 2001, a county, city, village, or township was not able to directly issue limited tax bonds for a building project. Under Act 31 of 1948, a building authority may be formed that can issue the bonds with a limited tax pledge of the community without a vote. The building authority has always seemed like an unnecessary step in the process, which has been remedied with Capital Improvement Bonds authorized by Act 34 of 2001. The Building Authority Act, which is still an option, authorizes the construction of specific types of facilities, including most public purpose municipal buildings. It even allows for revenue bonds, which might be useful for such projects as parking structures. Building Authority Bonds count toward the general 10 percent of SEV debt limit, which is an advantage over the 5 percent limit for Act 34 Capital Improvement Bonds. Other authority options are available, such as for fire department facilities.

**Utility Authority** (Act 233 of 1955):
This method involves forming a water or sewer utility authority by two or more local units. The purpose of an authority is to accomplish financings and/or have operational control. The powers of the authority can be limited or broad. Many are designed to only have the power to issue bonds on behalf of the members. A primary advantage of the Act 233 authority is that bonds can be issued as revenue bonds or limited tax general obligation bonds.

**County Issue** (Act 185 of 1957 or 342 of 1939):
This method offers a conduit for issuing bonds for one or more local units in financing water and sewer projects. The local unit pledges their limited tax full faith and credit to the repayment of the bonds in the contract. The county, in turn, typically pledges its limited tax full faith and credit to the issuance of county bonds. One advantage is that the county may have a bond rating and be more readily acceptable to potential purchasers than that of the local unit.

A COMMUNITY THAT DESIRES TO FINANCE A PROJECT MUST DO SO ACCORDING TO STATE LAW. A FINANCING, OR “OBLIGATION,” IS NARROWLY DEFINED AS BONDS OR NOTES.
Special Assessment” (SA) and Portion Bonds (Various Acts):
A Special Assessment roll of individual properties may be established as a method of supporting a bond issue. This can be used in conjunction with other forms of financing. This is most appropriate for infrastructure benefiting specific properties. A city, village, or township portion bond may be issued in conjunction with a SA bond that is supported in some other fashion, e.g. rates and charges.

There are various bond options that rely on tax increment revenue capture. It must be demonstrated, however, that the facility serves the defined area.

Installment Purchase Contracts (IPC) (Act 99 of 1933):
Utilized by cities, villages, and townships, (counties have a separate authorization) this format has a fifteen-year duration, and the total of all outstanding IPCs is capped at 1.25 percent of taxable value. Typically the IPC is used for equipment purchase, but may have certain limited application for infrastructure and building projects. The market for an IPC is typically only banks that will treat the IPC as a bank investment.

Revenue Bond Obligation
This type of bond issue is supported and secured solely by the user fee revenues of the project. The issuer does pass an ordinance that covenants that rates will be maintained sufficient to cover debt service. This type of bond issue is used on a very limited basis when it comes to building projects. Examples include parking structures and marinas. Of the bond options outlined, this type of bond typically produces the highest interest rate in the open market.

Revenue Bond (Act 94 of 1933):
A Bond Ordinance, much like a Bond Resolution, is used to authorize the issuance of revenue bonds. A 45-day right of referendum period is required. If 25 percent of the project is grant funded, or if placed with the Municipal Bond Authority (including SRF, DWRF, and SWQIF), a LTGO pledge can additionally secure the bonds.

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