



## Fiscal Estimate Narratives

DOR 10/19/2011

LRB Number	11-0826/1	Introduction Number	SB-238	Estimate Type	Original
<b>Description</b> Authorizing the Board of Commissioners of Public Lands to make revenue obligation trust fund loans to certain municipalities, authorizing the Board of Commissioners of Public Lands to make certain investments, application requirements for certain state trust fund loans, persons authorized to execute certificates of indebtedness, and collection procedures for outstanding state trust fund loans					

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, the Board of Commissioners of Public Lands (BCPL) may invest money in the following trust funds – the common school fund, the normal school fund, the university fund, and the agricultural college fund. The BCPL administers a state trust fund loan program under which it lends money from these funds to local governmental entities such as counties, municipalities, school districts, and others. Such loans become a “general obligation” debt of the borrower. This means that the debt is secured by the borrower’s pledge to levy a property tax in sufficient amounts to make all interest and principal payments on the debt on a timely basis.

Under the bill, the BCPL would be permitted to make loans to local governments that would be deemed a “revenue obligation” debt of the borrower. Such debts are secured by the borrower placing a first priority on the revenues from the financed activity or activities for payment of the interest and principal on the associated debt.

Given both the recent financial difficulties of banks and reductions in their number, the ability of banks to make “revenue obligation” loans is significantly more limited than in the past. By allowing the BCPL to make “revenue obligation” loans to local governments, the ability of such entities to borrow for projects financed primarily from user fees (such as electric, gas, water, and sewer utilities) or revenues whose use is restricted by statute (such as tax incremental financing [TIF] project incremental property tax levies) may be enhanced.

The bill provides that in the case of revenue obligations secured by TIF incremental levies that the annual payment may not exceed 80% of all shared revenue payments (utility shared revenue, county and municipal aid, and expenditure restraint payment) in the year before the loan application is made. Since municipalities and counties with relatively high equalized value per capita tend to receive smaller shared revenue payments, this provision may limit the number of localities that could borrow from the BCPL for TIF-related purposes.

The Department of Revenue (DOR) does not have information which would permit it to reasonably project how many local governments might choose to apply for and receive “revenue obligation” debt from the BCPL. For those entities that do, to the extent BCPL lending fees and interest rates may be lower than fees and rates charged by banks and other lenders, user fees related to debt-financed activities could be lower under the bill.

The DOR would incur no costs related to the bill.

### Long-Range Fiscal Implications