Overview

The following summary covers the general principles and guidelines concerning General Obligation and Revenue Bonds issued by Political Subdivisions. This document is presented in a “frequently asked questions” (FAQ) format. While the FAQ is fairly detailed, remember that every situation is unique and that each situation deserves careful individual review. This document contains information obtained from the websites of the Louisiana State Bond Commission and the Louisiana Municipal Association.

To facilitate your use of this document, links within the document will direct your attention to text within the document and to related documents posted on the Louisiana Legislative Auditor’s website and on external websites. For example, in the Index, clicking the question number will link directly to the corresponding text. Within the FAQ, links will connect to other areas of the FAQ and to relevant external documents. Clicking on the individual question number within the text will activate a link to return to the index for selection of another question.

This Summary does not seek to give legal advice. Questions regarding general obligation or revenue bonds should be directed to your legal or bond counsel.
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General Obligation and Revenue Bonds
Issued by Political Subdivisions

Definitions

Municipal Bonds
Securities issued for the purpose of financing capital improvement projects of the issuing public entity.

General Obligation Bond
A municipal bond that is secured by a state or local government's pledge to use legally available resources, including tax revenues, to repay bond holders. General obligation bonds are secured by the full faith and credit of the issuing political entity and are generally supported by the entities taxing power (whether unlimited or limited in nature).

General obligation bonds are defined under Article VI, §44(6) of the Louisiana Constitution as, “…those bonds, the principal and interest of which are secured by and payable from ad valorem taxes levied without limitation as to rate or amount.”

Revenue Bond
A municipal bond that guarantees repayment solely from revenues generated by a specified revenue-generating entity associated with the purpose of the bonds, rather than from a tax.

Sales Tax Bonds
Bonds secured by the net revenues received by sales and use taxes imposed by the issuing political subdivision.

Limited (Special) Tax Bonds
Bonds secured by a special ad valorem tax that is fixed in amount and may be used only to fund acquisition or improvement of public property as authorized by the tax.

Refunding Bonds
Bonds that are issued in order to refinance existing bonds and are generally payable from the same source as the bonds being refunded.

Bond Holders
Investors who purchase issued bonds.
Proces Verbal

An authenticated record of the actions taken to comply with notice and procedural requirements, particularly with regard to elections seeking to impose a tax. The governing authority ordering the election is required to preserve a proces verbal of the canvass. R.S.18:1293

Q.1. What are municipal bonds?

A.1. Municipal bonds are securities that are issued for the purpose of financing capital improvement projects of the issuing public entity. These capital improvement projects may include acquisition of property and construction of or improvements to schools, streets and highways, bridges, hospitals, public housing, sewer and water systems, power utilities, and various other public projects.

The issuer of a municipal bond receives a cash payment at the time of issuance in exchange for a promise to repay, with interest, the investors (the bond holders) who provide the cash payment over time. Repayment periods may be as short as a few months or as long as many decades.

The issuer typically uses proceeds from a bond sale to pay for capital projects or for other purposes that it is unable or unwilling to pay for immediately with funds on hand under a pay-as-you-go process.

Examples of various types of municipal bonds include, but are not limited to, general obligation bonds, revenue bonds, sales tax bonds, limited (special) tax bonds, and refunding bonds.

Q.2. What are general obligation bonds?

A.2. A general obligation bond is a common type of municipal bond that is secured by a state or local government's pledge to use legally available resources, including tax revenues, to repay bond holders. General obligation bonds are secured by the full faith and credit of the issuing political entity and generally supported by the entity’s taxing power (whether unlimited or limited in nature). Article VI, §33 of the Louisiana Constitution authorizes political subdivisions to issue general obligation bonds, subject to approval by the State Bond Commission.

General obligation bonds are defined under Article VI, §44(6) of the Louisiana Constitution as, “...those bonds, the principal and interest of which are secured by and payable from ad valorem taxes levied without limitation as to rate or amount.”

Most general obligation pledges at the local government level include a pledge to levy a property tax to meet debt service requirements, in which case holders of general obligation bonds have a right to compel the borrowing government to levy that tax to satisfy the local government's obligation.
A political subdivision’s authority to levy ad valorem taxes is the primary mechanism used to secure general obligation bonds. Provisions, such as those in R.S. 39:569(C), authorize the state to step in and impose or collect a tax when a political subdivision fails to levy or collect a tax sufficient for debt service.

Once general obligation bonds are paid off, a political subdivision cannot continue to collect the ad valorem tax, because the purpose for which the tax was authorized and levied no longer exists. AG Op. No. 15-0116

Q.3. What are revenue bonds?

A.3. A revenue bond is a special type of municipal bond distinguished by its guarantee of repayment solely from revenues generated by a specified revenue-generating entity associated with the purpose of the bonds, rather than from a tax. Unlike general obligation bonds, only the revenues specified in the legal contract between the bond holder and bond issuer are required to be used for repayment of the principal and interest of the bonds; other revenues (notably tax revenues) and the general credit of the issuing agency are not so encumbered. Article VI, §37(A) of the Louisiana Constitution provides that the Legislature may by statute provide authority to political subdivision to issue revenue bonds.

Common revenue sources that are used to secure revenue bonds include, but are not limited to, the following:

Tolls, rents, electric, water, gas, sewer, etc. utility fees (generated by public utilities run by political subdivisions), fees charged for public services, and other self-generating revenues.

Q.4. What other types of municipal bonds exist?

A.4. Additional forms of municipal bonds include, but are not limited to, sales tax bonds, limited (special) tax bonds, and refunding bonds.

Sales Tax Bonds

Sales tax bonds are secured by the net revenues received by sales and use taxes imposed by the issuing political subdivision; a political subdivision under R.S. 47:338.68 may, however, use only up to 75% of the avails or proceeds of any sales or use taxes for bonds.

Limited (Special) Tax Bonds

Limited (special) tax bonds are secured by a special ad valorem tax that is fixed in amount and may be used only to fund acquisition or improvement of public property as authorized by the tax.
Refunding Bonds

Refunding bonds are bonds that are issued in order to refinance existing bonds and are generally payable from the same source as the bonds being refunded, although the security source may be different. Both the IRS and State Law place restrictions on refunding bonds. An election authorizing issuance of refunding bonds is not required when the refunding bonds are issued at the same or lower rate of interest, and the issuance of the refund bonds occurs at the same time that the refinanced debt is cancelled, or if money from their issuance is placed in an escrow account solely for the purpose of paying off the refinance debt. See Article VI, §33(A) of the Louisiana Constitution.

Q.5. By what general authority may political subdivisions issue bonds?

A.5. The general constitutional authority for the issuance of bonds by political subdivision is found within Article VI, §33 through §37 of the Louisiana Constitution. The Legislature has provided authority for political subdivisions to issue several types of bonds (revenue, sales tax, etc.) for various purposes. The primary source of statutory authorization for political subdivisions to issue bonds may be found in R.S. 39:551, et seq.

Q.6. Who is authorized to issue bonds?

A.6. In addition to the State, “political subdivisions” are authorized by the Louisiana Constitution to issue bonds with the approval of the State Bond Commission and with the authorization of a majority of the electorate voting on the proposition to issue the bonds. “Political Subdivision” is defined in the Louisiana Constitution under Article VI, §44(2) to include Parishes, Municipalities, School Boards, and other units of local government and special districts authorized by law to perform a governmental function. Examples of the latter category often include library boards, sewerage, water, lighting, or drainage districts, levee boards, etc.

See also R.S. 39:551, which provides that municipal corporations, parishes, school districts (including the Orleans Parish School Board), road, subroad, sewerage, waterworks and subwaterworks, gravity drainage and subdrainage districts (except in the city of New Orleans and parish of Orleans), irrigation districts, hospital service districts, fire protection districts, and gas utility districts may incur debt and issue negotiable bonds.

Q.7. For what purposes may a political subdivision use the proceeds of the sale of bonds?

A.7. In accordance with R.S. 39:577, proceeds of the sale of bonds issued under the authority of R.S. 39:551, et seq. shall be used exclusively for the purpose(s) for which the bonds are authorized to be issued. In order to use any proceeds for a different purpose, the political subdivision must first obtain approval from a majority of tax payers in an election seeking to rededicate the proceeds. The purpose outlined in the process verbal as
presented to the taxpayers in the election for approval to issue the bonds shall govern the limited purposes for which the bond proceeds may be used. **AG Op. No. 84-0140**

**Q.8.** What is the maximum length of time for which a bond can be issued?

**A.8.** Generally, a bond will run for the period stated in the proposition placed before the voters in the election which authorized the issuance of the bond. **R.S. 39:563** limits the term of any bond issued by a political subdivision to a period of up to forty years. **R.S. 18:1284(B)** requires proposition placed before the voters in any election to authorize the issuance of bonds to state the number of years (not to exceed forty) that the bond is set to run.

**Q.9.** What limits are placed on the amount of bonds that a political subdivision may issue?

**A.9.** **General Obligation Bonds**

**R.S. 39:562(B)** provides that political subdivisions may issue bonds up to ten percent (10%) of their assessed valuation. A limited exception to this debt limitation exists for municipalities for the purposes outlined in **R.S. 39:553** if the aggregate for all purposes is determined at the time of the issuance of the bonds not to exceed 35 percent of the assessed valuation of the municipality.

For example: A city with an assessed valuation of $50,000,000 may issue up to $5,000,000 of general obligation bonds for each purpose, such as public buildings, streets, and so on. If, however, the city's total general obligation debt does not exceed $17,500,000, or thirty-five percent (35%) of its assessed valuation (including the proposed issuance), the 10-percent limitation may be exceeded for any one purpose.

**R.S. 39:562(C)** grants to school boards (parish-wide school districts and special school districts) an exception to the general debt limitation for purposes outlined in **R.S. 39:554** if the aggregate for all purposes is determined at the time of issuance of the bonds not to exceed 25 percent of the assessed valuation of the parish, or political subdivision in cases of special school districts.

**R.S. 39:562** grants to several school districts and other political subdivisions specific exemptions (in varying amounts) from the general debt limitation. Political subdivisions should consult with their legal counsel to ascertain whether any exemption applies to their situation.

**Revenue Bonds**

The amount of revenue bonds that may be issued by a political subdivision is not limited by statute. The State Bond Commission, however, will usually determine when approving or disapproving any proposed issuance of revenue bonds whether or not the expected pledge revenues are adequate for coverage provided for under the bond resolution.
Sales Tax Bonds

R.S. 47:338.68 restricts the issuance of sales tax bonds to a maximum of seventy-five percent (75%) of the estimated revenues of any sales and use tax pledged towards a sales tax bond.

Refunding Bonds

Refunding bonds are restricted by the Federal Tax Reform Act of 1986; furthermore, Article VI, §33(A) of the Louisiana Constitution states that general obligation bonds must be refunded at the same or a lower effective interest rate.

Q.10. What role does the State Bond Commission play in the issuance of bonds by political subdivisions?

A.10. The State Bond Commission was created under Article VII, §8 of the Louisiana Constitution and is constitutionally charged with approval of all bonds issued by the state, either directly or through any agency, board or commission, and all bonds issued by any political subdivision of the state. Article VII, §8(B) states:

No bonds or other obligations shall be issued or sold by the state, directly or through any state board, agency, or commission, or by any political subdivision of the state, unless prior written approval of the bond commission is obtained.

The approval of the State Bond Commission is generally required before a political subdivision incurs any form of “debt,” including issuance of bonds, entering into any loan, and the “pledging of public funds, credit, property, or things of value for public purposes with respect to the issuance of bonds or other evidences of indebtedness to meet public obligations as provided by law.” AG Op. No. 02-0165, discussing La. Const. Art. VII. §14 14(B)(3).

R.S. 39:1410.60 further elaborates on the authority of the State Bond Commission to approve all issuance of bonds and incurrence of debt by political subdivisions. R.S. 39:1410.60(B)(1) provides an exception from application of this provision for purchases made in the ordinary course of administration on terms of credit not to exceed ninety (90) days.

The State Bond Commission has been provided with rulemaking authority in order to carry out its duties.

R.S. 39:1410.61 charges the State Bond Commission with granting approval prior to any political subdivision’s holding an election to authorize incurrence of debt, levying of any special tax, issuance of bonds, borrowing of money, levying of any tax or pledging of any tax or revenue or income for the payment of any bonds or debt. The State Bond
Commission’s approval is also required prior to an election seeking to rededicate any existing tax or tax proceeds. AG Op. No. 05-0303

Q.11. When are bond elections required?

A.11. Bond elections are required in every case in which the provisions of the Louisiana Constitution, Revised Statutes, or other law requires that approval of voters of a political subdivision, through an election, be obtained as a prerequisite to the issuance of the bonds, levying or increasing of any tax, or the assumption of indebtedness by that political subdivision. R.S. 18:1283.

Political subdivisions should consult with their legal counsel and bond attorney to review the applicable law authorizing the issuance of the bonds in question to determine whether a bond election is required prior to issuance of the relevant bonds.

General Obligation Bonds

Subject to approval by the State Bond Commission, general obligation bonds may be issued only after authorization by a majority of the electors voting on the proposition at an election in the political subdivision issuing the bonds. La. Const. art. VI, § 33.

Revenue Bonds

The obligation to hold bond elections for the issuance of revenue bonds is a fact specific determination that will depend upon the statutory authorization for the issuance of the revenue bonds. The Louisiana Constitution has delegated to the Legislature the right to authorize the issuance of revenue bonds through statute. La. Const. art. VI, § 37.

Political subdivisions should consult with their legal counsel and bond attorney to review the applicable law authorizing the issuance of the revenue bonds in question to determine whether a bond election is required prior to issuance of the revenue bonds.

For example, under R.S. 39:559.1(F), Hospital Service Districts must hold a bond election if a petition containing signatures in an amount of more than 5% of those voting in the last election is presented at the scheduled hearing on the issuance by the political subdivision.

Sales Tax Bonds

An election is required to issue sales tax bonds by funding sales tax revenues into negotiable bonds R.S. 39:698.2.
Q.12. What circumstances do not require a bond election?

A.12. Bond elections are not necessary when the constitutional or statutory authorization for the issuance of the bond does not require that approval of voters be obtained through an election prior to the issuance of the bond.

Political subdivisions should consult with their legal counsel and bond attorney to review the applicable law authorizing the issuance of the bonds in question to determine whether a bond election is required prior to issuance of the relevant bonds.

Refunding Bonds

An election authorizing issuance of refunding bonds is not required when the refunding bonds are issued at the same or lower rate of interest, and the issuance of the refund bonds occurs at the same time that the refinanced debt is cancelled or if money from their issuance is placed in an escrow account solely for the purpose of paying off the refinance debt. Article VI, §33(A) of the Louisiana Constitution.

Revenue Bonds

The obligation to hold bond elections for the issuance of revenue bonds is a fact specific determination that will depend upon the statutory authorization for the issuance of the revenue bonds. The Louisiana Constitution has delegated to the Legislature the right to authorize the issuance of revenue bonds through statute. La. Const. art. VI, § 37.

Political subdivisions should consult with their legal counsel and bond attorney to review the applicable law authorizing the issuance of the revenue bonds in question to determine whether a bond election is required prior to issuance of the revenue bonds.

For example, under R.S. 39:559.1(F), Hospital Service Districts can issue revenue bonds without election unless a petition containing signatures in an amount of more than 5% of those voting in the last election is presented at the scheduled hearing on the issuance by the political subdivision. If a petition with sufficient signatures is presented, an election is required to issue the revenue bonds.

Q.13. What is a sinking fund?

A.13. A sinking fund is a fund established by a political subdivision in order to maintain funds or dedicated revenues intended to be used for the payment of principal and interest (debt service) on bonds. Monies within the sinking fund shall be used only for debt service on the bond(s) issued by a political subdivision. AG Op. No. 89-0313. Any interest earned on monies within a sinking fund shall be used only for the same purposes as the principal in the fund. AG Op. No. 81-1284
Q.14. What happens to monies in a sinking fund for a general obligation bond when the bond is retired?

A.14. When there is sufficient money within a bond sinking fund to retire the outstanding debt, the political subdivision may defease (annul) the outstanding bond and, if practical, return any remaining surplus pro-rata to the taxpayers. If the expenses of a pro-rata return make this impractical, the funds should be used for a purpose similar to those for which the bonds were issued. AG Op. Nos. 15-0116 and 04-0072

Once general obligation bonds are paid off, a political subdivision cannot continue to collect the ad valorem tax, because the purpose for which the tax was authorized and levied no longer exists. AG Op. No. 15-0116

Q.15. What are the record keeping/reporting requirements for municipal bonds?

A.15. R.S. 39:1438 provides that public entities that are issuers of municipal securities subject to the US Security Exchange Commission’s continuing disclosure rules under 17 CFR 240.15c2-12 must maintain:

- A list of all Louisiana municipal securities for which the public entity is the issuer or an obligated person;
- A copy of all continuing disclosure agreements to which the public entity is a party; and
- If, pursuant to a continuing disclosure agreement to which the public entity is a party, the public entity is responsible for filing notices of changes in bond ratings, a list of current ratings for such securities, if any; and

All of these required records are made subject to inspection by the public entity’s auditor and are required to be reviewed as part of the public entity’s annual financial audit.

Q.16. From whom may one obtain additional information concerning municipal bonds?

A.16. The State Bond Commission is an excellent source of information for questions regarding municipal bonds.

Louisiana State Bond Commission
Phone: (225) 342-0040