**The three primary ways NC local governments borrow money**

*For a local government to borrow money, it has to use a tool authorized by the statutes and then follow the particular rules.*

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| **Tools** | **Installment Financings**  | **Revenue Bonds** | **General Obligation Bonds** |
| **Source of repayments** | Utility fund or general fund revenues, depending on the project | Net revenues of the utility fund | Utility fund or general fund revenues, depending on the project |
| **Security for the lender** | Mortgage-type interest in some or all of the property being acquired or improved. Essentially “lease-purchase” | Promise to raise rates as necessary to cover system expenses and pay the loan  | Promise to raise taxes as necessary to pay the loan |
| **LGC approval required?** | Yes, if the loan is for more than $500K and extends beyond 5 years, or involves improvements to real property | Yes | Yes |
| **Voter approval required?** | No, only a public hearing | No, and not even a public hearing | Yes (well almost always – not for refinancing’s, and other limited exceptions) |

**Other points to note –**

 LGC will require that you have construction bids and all key permits in hand before allowing you to close a financing. LGC will not approve loans in November (or thereafter) until your new audit has been approved. LGC is not hard or scary to deal with; they just have questions and a few rules.

 LGC requires loans being paid from general fund money to be paid on a “level principal” basis, so payments are higher in earlier years. Loans for utility projects can be repaid on the basis of a “level total payment.”

 Any of these loan types can either be placed with a single bank in a negotiated sale (a “bank placement”) or sold on the public security markets (a “public sale”). Once your loan gets to about $5 million you should evaluate those alternatives – a bank placement is always easier and quicker, but a public offering can be substantially cheaper, ever with higher transaction costs.

 LGC generally limits you to a 20-year payback period (except in the case of a 40-year USDA loan and occasionally 25 years on a utility project). Sometimes it is difficult to find a bank to offer more 15-year financing. Public markets can always go to 20 or 25.

 This summary is general, it covers only the three main financing types, and there are exceptions to every rule.