

# **BOND ISSUES BY A MUNICIPALITY REPAID FROM STATE AID ALLOTMENTS**

**MN Statute:** 162.18  
**State Aid Rules:** 8820.1500 Subp. 11

Legally a Minnesota State Aid City can use their state-aid allotments to repay the principal and interest on a local bond issue when the funds are used for the purposes stated in the law. This sheet is intended to provide some guidance and clarity for the Municipality from the state-aid perspective.

## **Prior to Issue:**

- Consider your options. If the state-aid funds are available, advancing on future allotments is an interest free alternative to bonding.
- Work with your DSAE and SALT. It is important that they be included in the loop and may have insight to other funding options as well. But more important they will be able to help you determine if you will be able to use your allotment for the bond repayment.
- Do the Math. Know your legal limits before you get too far into the process. Feel free to contact State Aid Finance for help if needed.

### **Maximum Annual Payment:**

The average annual amount of the interest and principal payments due in all subsequent calendar years of the obligation **on the obligations, including similar obligations which are outstanding** shall not exceed 90% of the amount of the municipality's last annual construction allotment preceding the bond issue. For the purpose of calculating, the statute limits the municipality to the construction allotment preceding the bond issue. *(If a bond is payable over 20 years, determine the average annual value for all debt named above in each year. This amount cannot be greater than 90% of the last construction allotment received. Unless the bond is issued in early January the last construction allotment will be the one for the current year.)*

- Get Official Approval. By law the municipality must irrevocably pledge and appropriate to the sinking fund (debt service account) an amount of money sufficient to provide for the payment of bond principal and interest. This is generally done through a resolution by the city council or auditor's certification depending on the municipality.
- Clarify the roles within your agency. Where will the funds be held, how will they be drawn when needed, what account will get any interest earned on bond issue funds before they are spent, who will make the bond payments, who tracks the applied costs, and who will request state-aid funds.

## **After Issue:**

- The bond company generally provides the required paperwork, but to make you aware of what is needed by State Aid Finance, within 30 days of the bond issue, here is a list of the documents: A copy of the bonding agency's repayment schedule and a copy of the city's resolution authorizing the bond sale and containing language pledging and creating a sinking fund (debt service fund) to repay the bonds.
- The city receives the proceeds from the bond sale and retains the proceeds in the sinking fund they set up.
- The bond company's repayment schedule is entered into the State Aid Accounting System. Annually the amount due for principal and interest will be set aside from the city's allotment accounts at the start of the year.
- The city must request annual payments for interest and principal in a timely manner from State Aid Finance by submitting the "Affidavit to Request Bond Payment" to John Fox, [John.E.Fox@state.mn.us](mailto:John.E.Fox@state.mn.us) either via e-mail or regular mail.
- The amounts requested on the Repayment Affidavit will be verified against the repayment schedule originally entered into the system. If they match the payment will be released to the city. If they do not match we will contact you requiring documentation of the change.

- Annually when the new allotments are issued any advanced funds are automatically repaid first, then the bond principal is “set aside” from the remaining balance, if there is one, until it is needed. If there are insufficient funds to make the bond principal payments, funds will NOT be automatically advanced from the future year’s allotment. If an advance is needed you must send in an Advance Resolution. Also, the amount required to repay the interest for the entire year will be set aside from the city’s maintenance allotment. If there are not sufficient funds the payment will be paid short. There will NOT be an advance made on maintenance funds for interest payments and the balance will be due from the city’s local funds.

**Re-funding:**

Re-funding is the process of refinancing the county’s bond. This is usually done to obtain a lower interest rate or to restructure debt.

- Notify State Aid Finance of any bond re-funding, retirement or other payment schedule alteration.
- Re-funded bonds will be required to meet all the same criteria as an original issue and all the same documentation must be provided to State Aid Finance.
- Costs to re-fund a bond that are added to the principal must also be applied to State Aid eligible cost if they are repaid with state-aid funds.

**Applying Bond Funds:**

The bond principal that is repaid using the city’s construction allotment must be spent on State Aid eligible projects. The city “applies” the funds to a project on a State Aid Pay Request. State Aid then reduces the “unapplied bond funds” account for the city in lieu of sending a payment.

- Any portion of a bond principal that is NOT repaid with state-aid funds does not need to be applied to State Aid eligible costs and State Aid Finance will need to adjust your bond repayment schedule to reflect this.
- It is in the city’s best interest to apply the funds to a State Aid eligible project soon after the bond issue to get the best value for their issue costs, as prices rarely fall. It is strongly advised that the bond proceeds be applied prior to a subsequent bond issue.
- When this pay request is processed, the amount to be applied is entered into our system and automatically applies to the oldest bond on record with an unapplied balance.
- If this is the only funding on the request the local agency will not receive a payment
- All bonds must be applied at 100% and until they are they will remain an open liability at State Aid on the city’s account.