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School Bonds

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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Reference Number: CTAS-1731

While bonds for school capital purposes can be issued under the Local Government Public Obligations Act, many school bonds are issued under the authority of the school laws. T.C.A. §§ 49-3-1001 through 49-3-1110. These bonds can be issued for almost any school capital project: to purchase property, to erect or repair school buildings, to furnish and equip school buildings, and to refund, call, or make payments of principal and interest on previously issued bonds, as well as to contribute or make grants to state education facilities within the county or in neighboring counties. T.C.A. § 49-3-1004. They may also be issued for the purchase of buses. T.C.A. § 49-3-1006.

These bonds are general obligation bonds, backed by the full faith and credit of the county and by its taxing authority. T.C.A. § 49-3-1005. Only one resolution of the county legislative body is necessary to authorize the issuance of this type of bond. T.C.A. § 49-3-1002. School bonds are not subject to a referendum upon petition as are general obligation bonds under the Local Government Public Obligation Act; however, the county legislative body has the authority to call for a referendum by resolution to ascertain the will of the people regarding the issue. T.C.A. § 49-2-101(5). But, since the county is required to provide public education according to state laws and regulations and is frequently under a mandate to correct deficiencies, such a referendum may serve no real purpose.

School bonds may be issued for a period of up to 40 years; however, market conditions often dictate that the bonds mature in 15 to 20 years.

The law requires counties containing city schools or special school districts to distribute the proceeds from a bond issue for school capital purposes on an average daily attendance basis, unless a tax district outside the city or special school district is established. T.C.A. §§ 49-3-1003, 49-3-1005. If a tax district is not established, city systems and special school districts are entitled to a proportional share of the proceeds of a school bond issue, or they may waive their rights to such a share. T.C.A. §§ 49-3-1003, 49-3-1005. If a tax district is established so that the school bonds are payable only from funds collected outside the city or special district, then the city or special school districts do not share in the proceeds. T.C.A. § 49-3-1005(b)(2). The same sharing rules now apply to capital outlay notes and bonds issued for school capital purposes under the Local Government Public Obligations Law. However, the disposition of proceeds of any capital outlay notes issued prior to January 15, 1998, without sharing is valid unless the disposition was challenged in court before January 15, 1998. T.C.A. §§ 9-21-120, 9-21-129.

Users of a project or school credit bond project financed pursuant to the Tennessee State School Bond Authority Act (T.C.A. § 49-3-1201 *et seq.*) are prohibited from making any changes to a project or program that would affect the tax-exempt status of the bonds or notes unless the change is approved by the office of state and local finance in the office of the comptroller and the Authority. Failure to get prior approval renders the change void. T.C.A. § 49-3-1207.

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