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# Borrowing in the Bond Market or from a Loan Pool

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Dear Reader:

The following document was created from the CTAS website ([ctas.tennessee.edu](http://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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# Borrowing in the Bond Market or from a Loan Pool

Reference Number: CTAS-1787

Once it has been determined that the project will be supported with a bond or loan, the county must select the best avenue to issue the debt.

## Financial Advisor

Reference Number: CTAS-1788

Some counties have chosen to have financial advisors employed to assist in their county debt management. Depending on the county's debt positions and understanding of their debt and future needs, the value of this service could be questioned. First, if a county has a debt management program, the county should have a good understanding of their financial needs. Second, if a financial advisor under contract with the county also is involved in the underwriting, trading, or sale of the debt; there exists a question of enough independence in the relationship. Due to the nature of some borrowing and the lack of understanding and knowledge of the issuer, there are cases where the financial advisor is a needed professional for your county. If a financial advisor is needed, it is recommended that the county do a request for proposals to secure these services. The purchasing professionals with CTAS have available specifications for solicitation of a financial advisor.

Recommended Practice: If you desire to have a financial advisor, it is recommended to request proposals for their services

## Underwriter

Reference Number: CTAS-1789

An underwriter is a firm or group of firms selected to purchase and re-market the debt to the public or investment community. An underwriter usually is an investment banker or commercial bank. The underwriter puts together an offering price to purchase the debt with the intent to re-sell the debt in smaller pieces to other investors, making a profit on the difference in the purchase price and selling price.

## Bond Sales

Reference Number: CTAS-1790

If a county is having its debt issued by bonds, the county and its advisor can select to have a competitive, negotiated or private placement of the bonds. If a competitive sale is selected, then a financial advisor, issuer, or bond counsel will develop legal notices, bid forms, and various disclosures regarding the issue, along with a time and date to receive bids. The county should be aware that Federal law prohibits what is known as arbitrage - where a county receives tax exempt debt funds and re-invests those funds to generate earnings greater than the interest cost. Generally when the bonds are sold, all proceeds are then turned over to the county. A specific drawdown of the money on the capital project is planned and anticipated to prohibit an arbitrage issue.

## Loans

Reference Number: CTAS-1791

Issuing debt by loans has been an option taken by many governments over the years as a way to reach a more economic scale in the issuance cost. A loan program involves a firm developing a program where bonds are issued in a large denomination (several \$100 million) through a public building authority. This money is then loaned to the local government. Loans can be on variable or fixed rates. In cases where governments borrow under a loan program, generally there should be a reduced issuance cost due to the issuance cost for the one large denomination bond being spread over many loans, as opposed to issuance cost on individual bonds. Further, the need for a financial advisor is minimized due to the individual bonds not having to be underwritten. If a county is considering loans, these loans also should be on a request for proposals. Further arbitrage issues do not arise on these loans since the government receives the funds on

a drawdown as needed basis.

Recommended Practice: If your county has selected to issue loans for their debt, then the county should solicit loan rates and related cost

## Time Frame for Receiving Monies

Reference Number: CTAS-1792

The county should consult with its financial advisor or the loaning firm on the availability of money. Public notices may be necessary to determine if a referendum is required. If a referendum is held, the process could take up to six months. Upon loans being approved, the time of receiving money can be three to five weeks.

## Cost Associated with Bonds and Loans

Reference Number: CTAS-1793

The county needs to understand the full and total cost of the issuance of debt. There generally is a cost associated when the transaction is complete, and then the on-going monthly and annual cost of the issue. These costs should be fully disclosed during your solicitation process for a financial advisor and debt issue. State form CT-0253 should be used in the solicitation process.

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**Source URL:** <https://www.ctas.tennessee.edu/eli/borrowing-bond-market-or-loan-pool>