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# Financial Management: Bonds and Financing Projects

Municipal Clerks and Treasurers Institute

Lawrence Flynn

*February 11, 2026*

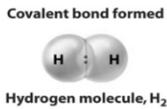
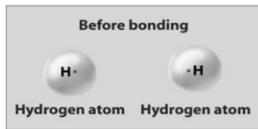
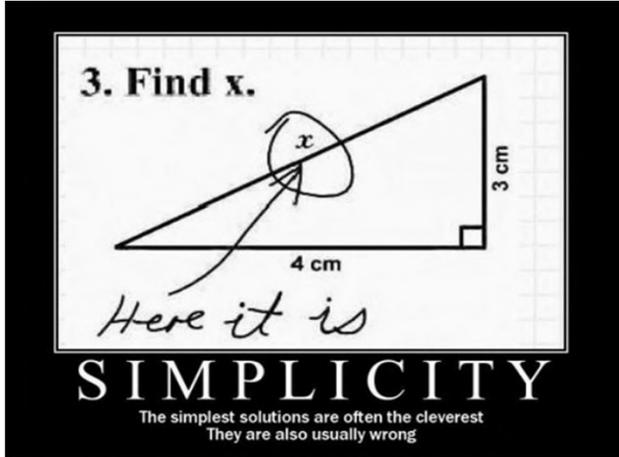


- ▶ Dillon's Rule v. Home Rule
- ▶ Role of Bond Counsel
- ▶ Restrictions under State law-relate to the validity of the borrowing
- ▶ Restrictions under Federal law- relate to "tax exemption" of interest
- ▶ General Fund v. Proprietary/Enterprise Fund
- ▶ Municipal Boundary v. Service Area – S.C. Code Section 5-7-60





- Municipalities generally cannot “sign a note” and “mortgage” at a local bank



# Basic Municipal Borrowing Tools

## Basic Municipal Borrowing Tools

- ▶ General Obligation Bonds
- ▶ Revenue Bonds
- ▶ Lease-Purchase Agreements
- ▶ Installment Purchase Revenue Bonds
- ▶ Tax Increment Bonds (TIF)
- ▶ Interim Financing (BANs, TANs, GANs)
- ▶ Special Tax-Based Financing
- ▶ Municipal Improvement Districts (MID)
- ▶ Special Source Revenue Bonds (SSRBs)



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## General Obligation Issues

- ▶ Full faith and credit
- ▶ The borrowing is secured by the taxing power of the municipality
- ▶ If taxes are insufficient to pay debt service, the municipality must raise taxes
- ▶ Typically used for “capital items” - brick & mortar, equipment or real estate projects
- ▶ Generally the project will be a “general benefit” for the residents of the municipality (public purposes – an ever evolving concept)
- ▶ Exempt from Act No. 388 (Section 6-1-320(D))
- ▶ An understanding of how taxes are levied in South Carolina is essential

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## General Obligation Issues

### Bond Counsel Involvement

- General obligation issues require the assistance of bond counsel
  - ❖ Eight percent of the assessed (not appraised) value of property in the municipality
  - ❖ Referendum exception
- Ordinance (two readings) at public meetings
- Debt filing (applies to all debt)
- Debt limit certificate

## General Obligation Issues

### Understanding Your Tax Levy

- \$100,000 Market Value / Capped Value of a Home
  - ❖ Constitutionally assessed at either 4% or 6%
  - ❖ Assessed Value is either \$4,000 or \$6,000
  - ❖ Millage Rate – “amount per thousand dollars used to calculate taxes on property”
  - ❖ 1 mil in this example equals either \$4 or \$6
  - ❖ 50 mills equals either \$200 or \$300
  - ❖ 400 mills equals either \$1,600 or \$2,400



\$100,000	Appraised value of home
X 4%	Assessment ratio for residential property
<hr/>	
\$ 4,000	Assessed value of home
<hr/>	
.090	Tax rate in mills (90 mills)
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\$ 360	Tax Due



## General Obligation Issues

Fiscal Year	Tax Year	Town of Lexington	Lexington County	Lexington		Midlands		Riverbanks Zoo	Mental Health	Total	
				School District 1	School District 2	Technical College	Recreation Commission			School District 1	School District 2
2015	2014	35.14	94.25	349.51	176.21	4.37	16.74	2.39	0.50	502.90	329.60
2016	2015 (1)	35.14	94.44	369.37	225.96	4.35	16.00	2.09	-	521.39	377.98
2017	2016	34.29	94.97	384.29	225.96	4.35	16.22	2.09	-	536.22	377.89
2018	2017	34.29	94.69	403.25	225.96	4.35	16.10	2.09	-	554.77	377.48
2019	2018	34.29	97.16	407.70	225.96	4.35	15.90	2.09	-	561.49	379.75
2020	2019	34.29	98.35	412.40	230.22	4.35	15.80	1.00	-	566.19	384.01
2021	2020	26.06	96.66	398.86	230.22	4.17	14.93	1.00	-	541.68	373.04
2022	2021	26.06	96.21	398.86	234.40	4.17	15.06	0.80	-	541.16	376.70
2023	2022	26.06	96.21	398.86	242.40	4.17	15.06	0.80	-	541.16	384.70
2024	2023	26.06	101.04	415.86	242.40	4.17	15.06	0.80	-	562.99	389.53



## General Obligation Issues

Fiscal Year	Tax Year	Real Property	Personal Property	Total AV*
2025-2026	2025	\$50,000,000	\$13,000,000	\$63,000,000

\$63,000,000 x 0.08 = \$5,040,000 of Debt Limit

If \$1,000,000 in GO Bonds are outstanding, \$4,040,000 of capacity remains

\*Does not include merchant's inventory, motor carrier reimbursement, manufacturer's depreciation or property in a multi-county park

## General Obligation Issues

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- Unless the debt is (a) less than \$1,500,000 and (b) repayable over ten years or less, it must be sold at a public competitive sale
- Notice of public sale must be published at least seven days prior to the sale date
- For private sales, notice must be published at least seven days prior to the closing date

\*\*\* Important \*\*\*

- Be sure payments are structured to come due in Spring-time (March, April, May) so that taxes can be levied & collected!

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## Revenue Issues for Infrastructure

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### Types of Revenue Streams

- Typically utility services, including water/sewer systems, solid waste, gas, and electrical
- Recreation fees
- Parking fees
- Other dedicated sources of non-tax revenues
- Revenues from a multi-county business park



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## Revenue Issues for Infrastructure

- Secured by Revenue Stream
  - ❖ A limited pledge
  - ❖ Bond documents will establish a “waterfall” to control the flow of revenues
  - ❖ Generally debt service on the bonds will come before O&M expenses (gross pledge) or after (net pledge)

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## Revenue Issues for Infrastructure

### Coverage Ratios

- Rate Covenant – requires that rates be maintained at a certain level (a multiple of O&M and debt service)
- Additional Bonds Test – requires certain coverage before the issuance of new debt

### Additional Debt

- “Parity” bonds enjoy the same lien status as the prior bonds, and must meet the additional bonds test
- Junior lien bonds may be issued at any time
- Special projects, lease/purchase exceptions in bond documents

### Other Considerations

- A feasibility study will be important
- Among other things, the municipality should compare revenues to expenses (including debt service) and thoroughly plan the improvements

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## Revenue Issues for Infrastructure

### Transfers

- ▶ *Cumberland v. Columbia* – how are you using the net profits of the enterprise? What does this tell us about reliance on enterprise fund transfers?
- ▶ Utility fees are user fees under Section 6-1-330
- ▶ City issues bonds under Revenue Bond Act for Utilities – Section 6-21-440 expressly allows for distribution of surplus revenues
- ▶ Surplus should be distributed only after all costs of utility are funded
- ▶ Do you provide for calculation of surplus in your budget ordinance?
- ▶ Do you have or have you established financial policies to deal with transfers?
  - ❖ Is there methodology for calculation?

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## Lease Purchase Agreements

- ▶ Not a “True” Lease because ownership transfers
- ▶ Financing institution provides funds and “leases” the assets to the municipality
- ▶ Lease payments have principal and interest components
- ▶ Assets will pass to municipality free and clear upon conclusion of lease term
- ▶ Remember new lease reporting rules under GASB No. 87



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## Lease Purchase Agreements

### Debt Limit Considerations

- Previously all lease-purchase transactions were exempt from the debt limit
- Statute passed in 1995 disallows debt-limit exemption for real property and fixtures
- Now lease-purchase agreements are used almost exclusively for vehicles, equipment, and rolling stock
- Paid out of Operations; Not considered debt – Now limited by Act 388

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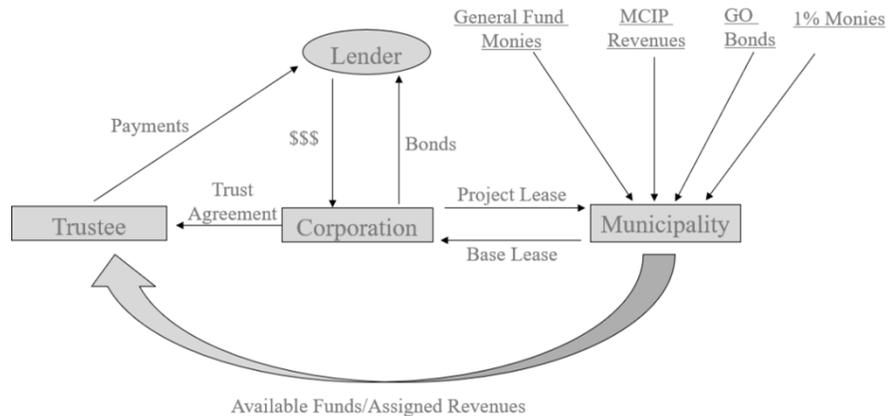


## Lease Purchase Agreements

- Importance of Appropriate Documentation
  - Approving resolution
  - Lease Purchase Agreement (non-appropriation, no non-substitution)
  - IRS filing, closing certificates
  - Retention of bond counsel?

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## Installment Purchase Revenue Bonds



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## TIF 101 Tax Increment Financing

- Tax increment financing is allowed by the South Carolina Constitution (1977 Amendments). Article X, Section 14 authorizes a city to borrow money for redevelopment within its incorporated boundaries, with debt service to be provided from the incremental property tax revenues resulting from the value added by the redevelopment project.
- Law for cities is codified at Chapter 6 of Title 31, Code of Laws of South Carolina (originally enacted in 1984, and amended many, many times).
- Law for counties is codified at Chapter 7 of Title 31, Code of Laws of South Carolina (enacted in 1999, amended once).
- TIF Law upheld in *Wolper v. City Council of City of Charleston* (1985).

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## TIF 101

## Tax Increment Financing




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Statutory Process | Establishing the TIF


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- Starting point is the adoption of a Redevelopment Plan (defining a Redevelopment Project Area). The Redevelopment Project Area must contain blighted areas, conservation areas or more recently agricultural areas (sprawl areas for the County TIF – unincorporated territory).
- Factors for improved structures: age, dilapidation, deterioration, illegal use of structures, code violations, vacancies, lack of planning, lack of adequate infrastructure, etc....
- Factors for vacant areas (if not blighted or conservation) include: poor platting, tax delinquencies, deterioration of neighboring structures, etc....
- Redevelopment Project Area must be greater than 1.5 acres (limited to 5% of total acreage of County in County TIF)

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## TIF 101

## Tax Increment Financing




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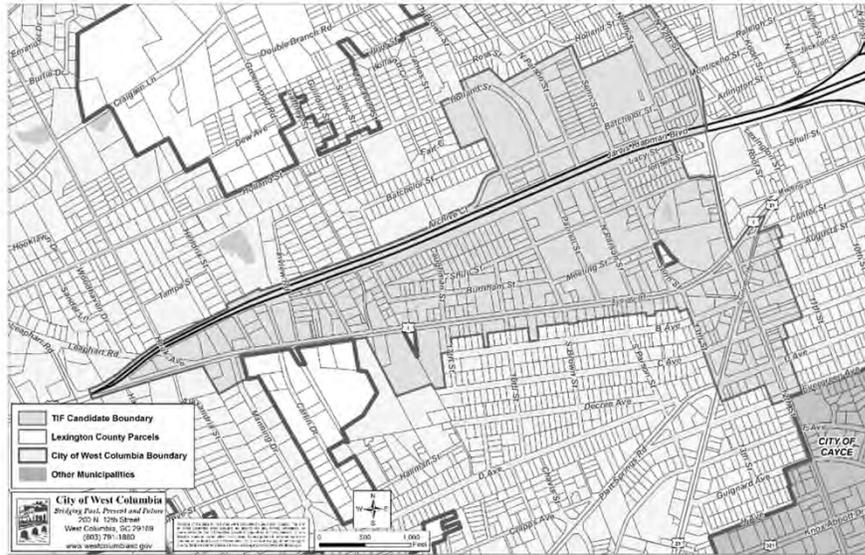
Response | Intergovernmental Agreements


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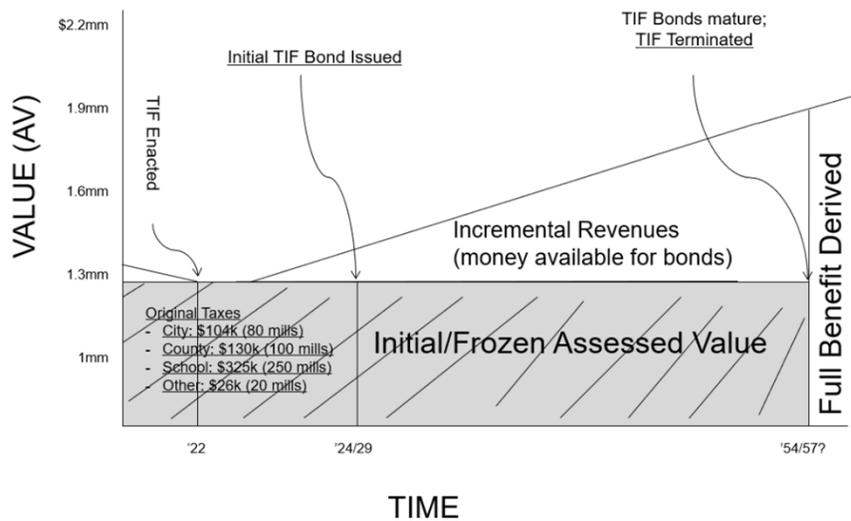
- What is the term?
- What is the split of revenue?
- When will the IGA be effective?
  - At signature?
  - When bonds are issued?
  - When identified infrastructure goes on tax bill?
  - Will there be triggering events?
- Will you limit your participation?
- Can the TIF be amended?
- Conversation with the County Auditor and Treasurer?

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### Tax Increment Bonds



### Tax Increment Bonds



# TIF 101

## Tax Increment Financing

Determining the increment—what is available?

Entity	Millage	\$1,300,000 x Millage	\$3,000,000 x Millage	TIF Dollars
City	80 mills	\$104,000	\$240,000	\$136,000
Schools	250 mills	325,000	750,000	425,000
County	100 mills	130,000	300,000	170,000
Other	<u>20 mills</u>	<u>26,000</u>	<u>60,000</u>	<u>34,000</u>
<b>Total</b>	<b>450 mills</b>	<b>\$585,000</b>	<b>\$1,350,000</b>	<b>\$765,000</b>

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## Interim Financing



- ▶ Tax Anticipation Notes (TANS)
- ▶ Bond Anticipation Notes (BANS)
- ▶ Grant Anticipation Notes
- ▶ Interim Financing for Federal Programs

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## Municipal Improvement Districts

- Creation process for a MID takes several months
- Assessments on real property which allow development to pay for development
- Assessments can take several different forms which gives flexibility to the municipality in structuring its needs for a particular area
- City is issuer



## Special Tax-Based Financing

- Capital Project Sales Tax
- Hospitality and/or Accommodations Taxes
- Special Source Revenues
- Limited Obligation Revenues



## Understanding the Players

- Issuers (Direct v. Conduit)
- Legal Counsel
  - ❖ Bond Counsel: Required to deliver validity opinion for borrowing
  - ❖ Local Counsel: Know day to day operations; required to deliver an opinion as to underlying documents and litigation
- Municipal Advisors
  - ❖ Evolving role, far more involved in transactions; Should have discussions with Counsel or existing FA about role in transactions or on-going operations
- Bankers/Underwriters
  - ❖ Underwriter: Only for Market-sold deals
  - ❖ Other Counsel: Represent Trustee, Underwriter, Issuers (i.e. Disclosure or Special Tax matters)

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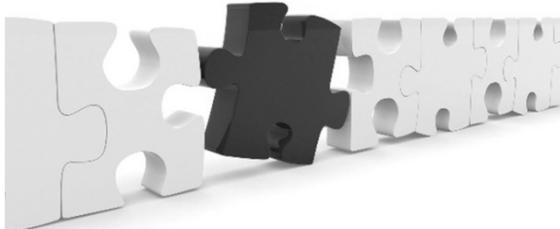
## Understanding the Players

### The Municipal Advisor Role

- Background:
  - ❖ Regulations in the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, passed after the Great Recession, established that anyone providing financial advice to issuers of bonds would be regulated
  - ❖ Responsibility was left to the Securities and Exchange Commission to define what a municipal advisor is and is not
- What or who is a municipal advisor?
  - ❖ A firm and its associated persons that provide “advice,” with or without compensation, to “municipal entities” and “obligated person” on the issuance of “municipal securities” or “municipal financial products”
- What are the implications of being a Municipal Advisor?
  - ❖ Required to register with the MSRB
  - ❖ Statutory Fiduciary Duty: includes a duty of loyalty and duty of care
  - ❖ Subject to the MSRB rules

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## Transactional Building Blocks



- ▶ Taxable v. Non-Taxable
- ▶ “Bank Qualified” v. “Non-Bank Qualified”
- ▶ Private Placement v. Publicly Sold Transaction: Term, Size, Flexibility, Issuance Costs, Disclosure practices, rate differentials, credit-worthiness; insurance or other liquidity providers

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## Issue Size and Type



- ▶ Issue size often drives the decision for a shorter or longer term (coverage ratios, etc.)
- ▶ Type of issue may also impact the decision:
  - ❖ Security interest/Pledged revenue stream
  - ❖ Historical performance

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## Transaction Flexibility

- Ability to prepay transactions
  - ❖ Bank Loans provide a high level of flexibility
  - ❖ Useful especially for dynamic, changing entities
- Investor Call protection

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## Tax Exemption

- With tax-exemption comes agreement to abide by certain rules and regulations regarding use and payment sources
- Set forth in IRS rules and regulations
- Section 103 – Substantially overhauled in 1986
- Bank-qualification (Section 265) – Applicable to Qualified Small Issuers



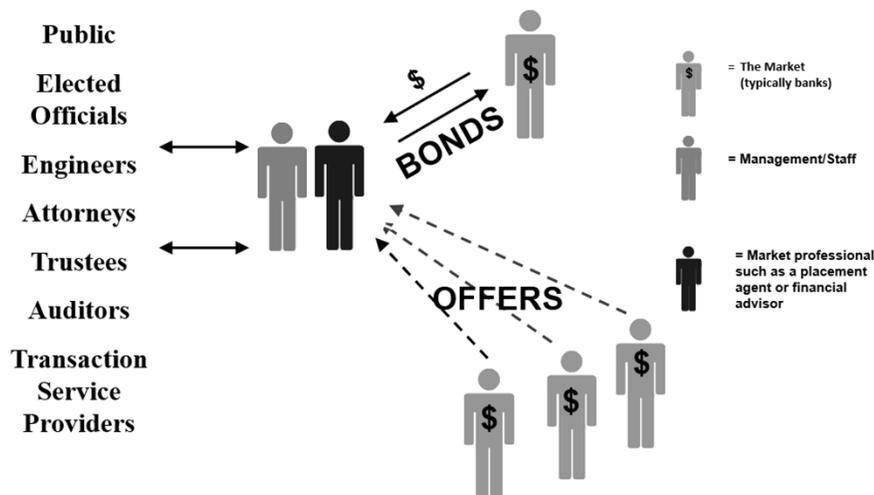
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## Recent Tax Reform

- Tax Exemption Preserved
- Elimination of Advance Refundings
- Elimination of Certain Tax Credit Bonds
- Retention of Private Activity Bonds
- Maintains authorizations for arenas and stadium
- Reduction of Corporate Tax Rate
  - ❖ 35% to 21%
  - ❖ Banks, Insurers
  - ❖ Effected Tax Gross-Up provisions in docs
- Repeal of corporate AMT



## Bank Loans





## Disclosure

### ▸ Continuing Disclosure Defined

- ❖ “Continuing disclosure consists of important information about a municipal bond and its issuer that arises after the initial issuance of the bond. This information generally reflects the financial or operating condition of the issuer as it changes over time, as well as specific events occurring after issuance that can have an impact on the ability of issuer to make payments on the bond, the value of the bond if it is traded prior to its maturity, the timing of repayment of principal, and other key features of the bond”
- ❖ Enforced through SEC regulation of Broker-Dealers; Required in Primary Offer as an Aid to Secondary Market
- ❖ Exempt from Registration and Reporting Requirements of '33 Act and '34 Act (Tower Amendment – Pre-sale) – But see Rule 10b-5 and Rule 15c2-12 and SEC's 1994 Interpretative Release (not private placements)

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## Disclosure

### ▸ What are my Continuing Disclosure Responsibilities?

- ❖ Established in the Continuing Disclosure Agreement (CDA) executed at the closing of your Bonds.
- ❖ Issuer may engage a Dissemination Agent to assist with disclosure responsibilities.
- ❖ Generally Requires:
  - ❖ Disclosure of Financial and Operating Information
  - ❖ Material Event Notices

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# Disclosure



**CAYCE S C WTRWKS & SEW REV (SC)**  
Click on a tab to access data and documents about this issuer's municipal securities.

**Issuer's Contact Information** This issuer has not provided contact information.

- Educational Resources**
- Customizing an Issuer Homepage
  - How Can Issuers Use EMMA?
  - Contact Us

Issues	Trade Activity	Pre-Sale Documents	Official Statements	Refunded Issues	Financial Disclosures	Event-Based Disclosures
Click on the issue description to view details about the issue. <a href="#">View all issues</a>						
Display 10 results   Search within list: <input type="text"/> <span style="float: right;">First Previous 1 Next Last</span>						
Issue Description	Dated Date	Maturity Dates				
WATER AND SEWER SYSTEM REFUNDING REVENUE BONDS, SERIES 2020	07/21/2020	2021 to 2036				
WATER AND SEWER SYSTEM REFUNDING REVENUE BONDS, SERIES 2016A (TAXABLE)	03/29/2016	2016 to 2024				
WATER AND SEWER SYSTEM REFUNDING REVENUE BONDS, SERIES 2016B	03/29/2016	2024 to 2028				
REF REV BDS 2007-A	09/11/2007	2008 to 2027				
RFDG & IMPT	07/15/2004	2005 to 2015				
<issue description not available>	07/15/1998	2000 to 2020				
RFDG	07/01/1993	1994 to 2015				
<issue description not available>	03/01/1990	1992 to 2015				
<issue description not available>	02/01/1974	1985 to 1990				
<issue description not available>	12/25/1966	1985 to 1986				
Displaying 1 to 10 of 10 results <span style="float: right;">First Previous 1 Next Last</span>						

# Disclosure

## CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Cayce, South Carolina (the "Issuer") in connection with the issuance of \$20,535,000 Water and Sewer System Refunding Revenue Bonds, Series 2020, of the City of Cayce, South Carolina (the "Bonds"). The Bonds are being issued pursuant to a Bond Ordinance enacted on February 2, 2016, and a Series Ordinance enacted on April 22, 2020 (together, the "Ordinance"). The Issuer covenants and agrees as follows:

### SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than each February 1 that the Bonds are outstanding, commencing with the report for Fiscal Year ended June 30, 2020, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate, provided, however, that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report.

**SECTION 4. Content of Annual Reports.** The Annual Report for each of the Fiscal Year shall include the Issuer's complete audited financial statements for such Fiscal Year prepared in accordance with generally accepted accounting principles in the United States of America applicable to governmental entities from time to time by the Governmental Standards Accounting Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report within fifteen (15) days after such statements become available for distribution. In addition thereto, the Annual Report shall contain or incorporate by reference the following information:

Financial data as of a date not earlier than the end of such fiscal year comparable to the information included in the Official Statement in the sections entitled "FINANCIAL FACTORS-Summary of Revenues and Expenses," "Historical Coverage" and "Debt Service Requirements," "THE CITY AND THE SYSTEM-Water System-Number of Water Customers," "Water System-Major Water Users," "Water System-Water Service Rates," "Sewer System-Number of Sewer Customers," "Sewer System-Major Sewer Users," "Sewer System-Sewer Service Rates," and "Annual System Sales and System Usage."



## Tips for a Smoother Borrowing Experience

- ▶ Financial Statements (be timely)
- ▶ Define the project: sizing of issue
- ▶ Stability in financial administration
- ▶ Stability in professionals, including bank and bond counsel
- ▶ Pricing is important, but not sole determining factor
- ▶ Discussion on front end of expectations – don't agree to things you do not understand
- ▶ Policies and Procedures (debt administration, tax, disclosure, coverage, OPEB, Pension, cash management)

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## Additional Legal Considerations

- ▶ FOIA
- ▶ Arbitrage and rebate
- ▶ Spend down requirements
- ▶ Tax Covenants (Ownership)
- ▶ Continuing Disclosure
- ▶ Bank-Qualified
- ▶ Economic Development/Public Purpose



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## Contact Information

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