Borrowing Money

Debt is one of the few exceptions to the municipal levy limit. If a town or village borrows money, it may exceed the levy limit by whatever principal and interest payments are due for the year. So, if a town has yearly debt payments of $10,000 it may levy an additional $10,000 to pay for the debt. This tax is calculated as an additional amount on the annual municipal levy limit worksheet.

Although many towns view borrowing money as an emergency option only, it can also be an effective way to pay for improvements when managed correctly. It might make sense, for example, to finance a large project over a few years rather than dramatically increasing taxes to cover the cost in one year. When borrowing is prudent, there are limits on how much municipalities may borrow to be aware of. No municipality may borrow more than five-percent (5%) of its equalized valuation. So, if all of the property in your municipality is worth $10,000,000, it could borrow up to $500,000.

This article will address several common ways for towns and villages to borrow money.

Promissory Notes

A common form of municipal borrowing is through promissory notes (i.e. loans from a bank). Municipalities may issue promissory notes for any public purpose, including paying general and current municipal expenses and funding larger projects such as road construction or building a town hall. See s. 67.12(12)(a), Wis. Stat.

Issuing promissory notes is a simple process that does not require elector approval. Once a town or village board decides to take out the loan, it should pass a resolution specifying how much money will be borrowed and for what purpose. After passing the resolution, the board levies a tax to make payments on the debt—an addition to the municipal levy limit. This tax may not be repealed until the debt is paid off or the municipality has accrued a surplus.

Promissory notes must generally be paid off within ten years, although the repayment term may be extended up to ten more years in one of two ways. First, the lender could extend the term of the loan pursuant to Wis. Stat. 67.12(12)(c)1. Second, the municipality could issue another promissory note to pay off the original. Either way, the debt must be completely paid off within 20 years of the original promissory note.

State Trust Fund Loans

The Board of Commissioners of Public Lands (BCPL) manages a trust of state money and has the authority to grant loans to municipalities. BCPL loans have a short and simple application process, and all municipal loans taken out for a public purpose will qualify. The procedure for taking out a loan from the BCPL is like borrowing on promissory notes, except that the loan essentially comes from the State as opposed to a bank.

Further, BCPL loans have no prepayment penalties and come with competitive interest rates. If your town or village would rather borrow from a local bank, you can still leverage the BCPL interest rate into a better rate from your local bank. You can find more information about these loans on the BCPL website here: https://bcpl.wisconsin.gov/Pages/LoanProgramHomePage.aspx.

Borrowing in Anticipation of Future Revenue

Municipalities may also borrow against future federal or state aid, tax revenue, or other deferred payments by issuing municipal bonds in anticipation of that revenue. See s. 67.12(1), Wis. Stat. This debt must be issued in the same fiscal year as the anticipated funds and may not exceed 60% of the town's total actual and anticipated receipts in that fiscal year. All debt borrowed in anticipation of future revenue must be paid off within 18 months after the first day of that fiscal year.

Like promissory notes, the process for issuing these bonds begins with the board passing a resolution indicating the amount borrowed and the purpose for the debt. The resolution must also include the anticipated revenue to secure the debt. Additionally, the resolution should either assign portions of, or the entire, anticipated revenue. For example, if the town anticipates receiving $100,000 in future revenues and issues bonds for $50,000, the resolution would indicate that $50,000 of that revenue will go towards the debt service. Municipalities do not need a debt service fund if they issue debt under this method.

General Obligation Bonds

General obligation bonds are useful for larger projects that take longer than ten years to pay in full. These bonds require more time and higher costs to issue than other borrowing methods, making them an inefficient mechanism for most town and village borrowing.

Before a town board can begin the process of issuing general obligation bonds, it must get elector approval. See s. 60.10(2)(d), Wis. Stat. A town or village board must then adopt an initial resolution stating the purpose of the bonds and the amount to be borrowed. The board must levy a tax to make payments on the bonds, and that tax may not be repealed until all bonds gave been paid off. Finally, a referendum is usually required to issue general obligation bonds.

The town or village board should work with an attorney and/or a financial institution to ensure compliance with statutory bond requirements.

Local Improvement Bonds

If a municipality plans on using special assessments to collect funds for a project, it can use those funds as collateral for issuing local improvement bonds. The amount of these bonds cannot exceed the aggregate amount of unpaid assessments, and the money from these bonds may only be used on the project for which the town created the assessment. Essentially, local improvement bonds provide special assessment revenue up front rather than having to wait for the assessments.