

Overview of General Obligation Bonds

(as of June 16, 2023)

If the City of Palmer (City) needs to finance major capital improvements – such as repairing/upgrading/replacing its City owned library – it may issue general obligation bonds to pay for the project. Issuing municipal bonds is one of the most common ways for municipal governments to finance capital improvements.

Repayment of general obligation bonds is secured by the full faith and credit of the municipal government. In simple terms, that means such bonds are secured by a municipal government's ability to tax, and to raise taxes if necessary, in order to pay bondholders. (Contrast - revenue bonds are generally secured by a revenue stream derived from a revenue producing enterprise, for example, a water/wastewater utility.)

Summary of State Legal Limitations¹

The State of Alaska (State) has granted powers for municipal governments to issue general obligation bonds for *capital improvements*. These powers are set forth in the State Constitution and Alaska Statutes.

State law also imposes various limitations on the issuance of general obligation bonds. Following is a brief summary of such limitations as applied to the City:

1. *Election Required*. The issuance of a general obligation bonds is subject to voter authorization. [AS 29.47.190]

¹This summary is not exhaustive, rather it is intended to provide Council with a basic understanding of key requirements in connection with the issuance of general obligation bonds. Such bonds, if issued as tax-exempt obligations, are subject to federal tax laws not herein discussed.

- (a) Council approval of a bond ballot proposition is required prior to the election.
 - (b) City must publish a notice of the total existing bond indebtedness at least once a week for three consecutive weeks, with the first notice published at least 20 days before the election. Notice to include:
 - (i) Current total general obligation bonded indebtedness, including authorized but unissued bonds;
 - (ii) The cost of debt service on the current indebtedness; and
 - (iii) The total assessed value of property in the City.
2. *Debt Limitation.* The outstanding general obligation indebtedness of the City may not at any time exceed fifteen percent (15%) of the assessed value or all the real and personal property in the City. [Palmer Charter, Section 11.2(a)]
3. *Use of Proceeds.* Proceeds of the general obligation bonds must be used to finance capital improvements owned by the City and used for a public purpose.
4. *Purchaser of Bond.* Subject to voter authorization, the general obligation bond is then sold to a purchaser pursuant to terms agreed to by the City and purchaser².
5. *Council Authorization.* Council authorizes the sale and delivery of general obligation bonds, subject to voter authorization.

² Federal securities laws, as applicable, are not herein discussed.