

**ARKANSAS STATE BANK DEPARTMENT
EXAMINATION POLICY**

Policy Number	<u>01-1</u>
Effective Date	<u>2-01-01</u>
Supersedes	<u>97-1</u>
Approval	<u> </u>

SUBJECT: Financing Municipalities, Counties and School Districts

BACKGROUND

Amendment 78 of the Arkansas Constitution was passed by voters in November 2000 and became effective January 1, 2001. This amendment permits cities and counties to form redevelopment districts for the purpose of financing capital improvements for redevelopment projects in the district. Bonds may be issued to finance these projects.

Amendment 78 also permits municipalities and counties to incur short-term financing obligations maturing over a period not to exceed five (5) years. Municipalities and counties can enter into such obligations for the purpose of acquiring, constructing, installing or renting real property or tangible personal property having an expected useful life of more than one (1) year. These obligations can be in the form of loans, leases or bonds.

The Bank Commissioner sets a maximum rate of interest that can be charged on these obligations. The rate is set quarterly.

SCHOOL DISTRICTS

Generally a school district is restrained from issuing obligations that cannot be paid out of the revenues of the school year in which the obligation is incurred. There are exceptions to this which include: purchase of school leases, certain insurance policies, certain equipment, school sites, repair of facilities, energy conservation measures, settlement of litigation, and employment of professional appraisers for ad valorem tax purposes. Obligations incurred to finance these exceptions may be in the form of post-dated warrants, lease purchase agreements or installment contracts which must be paid within eight (8) years of the date of issuance.

The school fiscal year begins July 1.

It is recommended that in financial dealings between banks, cities, counties and school districts the bank consult its attorney.