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ASSOCIATION COUNTY COMMISSIONERS OF GEORGIA & GEORGIA MUNICIPAL ASSOCIATION

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Senate Bill 309: Low Cost Capital Financing Options for Local Governments

Highlights: SB 309 would grant the authority for the Georgia Municipal Association (GMA) and the Association County Commissioners of Georgia (ACCG) to issue tax-exempt bonds for pooled financing of local governments to acquire goods, materials, real and personal property, structures, and supplies eligible for revenue bond financing pursuant to an intergovernmental contract.

The intent of the legislation is to provide a more efficient and effective method to accomplish the same undertakings currently authorized for multiyear lease, purchase or lease purchase contracts.

SB 309 would authorize cities and counties to take advantage of the numerous benefits of pooled financing for local governments, such as greater access to the bond market (especially for smaller issuers), bond insurance which leverages more favorable interest rates and diversification of credit risk.

Background: Under current law, Georgia's cities and counties have the ability to participate in GMA and ACCG's lease purchase program to finance capital projects. However, the Lease Purchase statute requires payments to be appropriated every year of an obligation. Because local governments have the ability to not appropriate the funds and walk away from the debt, financial institutions charge a "risk premium" which makes lease purchase financing more expensive relative to the pooled financing options that SB 309 would allow for.

Georgia's local governments support creation of the Georgia Local Government Infrastructure Finance Authority legislation which would:

Eliminate the Appropriation Risk Premium currently imbedded into the interest rates paid by all of Georgia's municipalities and counties, reducing interest costs to levels currently enjoyed by local governments in many of Georgia's neighboring states.

Reduce underwriting and legal costs associated by using a larger, pooled bond issuance. The authority would create another avenue to access the bond market for local governments in Georgia, aiding smaller municipalities and counties that have traditionally been unable to tap these markets.

Establish a new financing option for local governments. Nothing will change from the current market dynamics unless a local government believes using the authority would result in a more attractive financing arrangement than it could otherwise obtain in the market. If a municipality or county wishes to use current providers to obtain financing, it can still fund itself exactly as it is doing today. Creating the authority will allow municipalities and counties to choose the best course for the local government and the taxpayers it represents.

Estimates of the Appropriation Risk Premium are 0.50% to 1.00%.

Potential interest expense savings from the elimination of this Risk Premium are:

Transaction Size	Interest Savings (life of transaction)
\$1 million - \$5 million*	\$125,000 - \$250,000
\$5 million - \$10 million*	\$250,000 - \$475,000
\$10 million - \$20 million**	\$750,000 - \$1,500,000

* Assumes 10-year transaction

** Assumes 15-year transaction

Cities Which Have Adopted Resolutions in Support of SB 309:

Byron	Hawkinsville	Dunwoody
Snellville	Acworth	Monroe
Trenton	Winder	Sugar Hill
Donalsonville	College Park	Americus
Tybee Island	Oakwood	Auburn
Madison	Chattahoochee Hills	Moultrie

