

IFA pooled bond program lets small governments borrow like the big guys

By ALAN J. ORTBALS

The Illinois Finance Authority issued \$1.9 million in tax exempt bonds through its Local Government Pooled Bond Program in July. It is planning another issue through the program in December.

Originally the work of the Rural Bond Bank, the pool bond program was designed to help small units of local government such as small cities, park districts, sewer districts, library districts and others to enjoy the low interest rates and long terms of tax exempt borrowing. The Bond Bank was folded into the Illinois Finance Authority in 2004 as part of a statewide consolidation of bonding authorities and is now simply a division of IFA.

Interest on IFA's bonds, issued under the program, are exempt from both federal and state income taxes. They also are backed by the moral obligation of the state of Illinois which delivers a bond rating just a level below the state's - and therefore, a lower interest rate than many smaller units of government can command.

In addition, by pooling the issue - multiple governmental bodies issuing debt through IFA at the same time - the costs of issuance like rating, underwriting and attorneys fees are shared.

Eric Watson is program administrator for government services for IFA. He oversees the pooled bond program. While there is no minimum or maximum amount that's been estab-

lished under the program, Watson says a rule of thumb is that if a district is seeking to borrow less than \$100,000, it is better off using conventional sources. But Watson says if you can meet that threshold, it's a great public financing tool.

"In our pools you have maybe five or six local governments," Watson said, "all having various needs for various purposes. One could be a school. One could be a village borrowing for a water product. Another village could be borrowing for a sewer.

"One could need a fire station or fire truck. IFA buys those securities from those units of local government and then we sell it as an IFA security on the open market.

"By doing that, we are able to achieve market rates which, in most cases, are much less than they could get anywhere and the cost is then shared and prorated based on the amount being borrowed by each of those units."

Since the bond bank was merged with IFA in 2004, the population limitation on participating municipalities was raised from 25,000 to 50,000 which covers all cities in Southwestern Illinois.

Because the bonds carry the state's moral obligation, IFA looks closely at the credit - but with an eye to helping those communities that need help, Watson says.

"We have not had any problems even though we've taken on some risk," he said. "We really evaluate based on that candidate, that partici-

pant's needs. The whole idea is to help those that need our help. You're promoting health and safety kinds of things, and so you're willing to take a little bit of risk and make sure that some of those areas have the same advantages and the same quality of life that others enjoy. We've always pushed for those that needed the help and for serving the ones that need to be served, regardless of their economic well-being. That's what we're here for," he added.

IFA tries to do two pooled issue per year, in the spring and the fall. Watson admits that timeliness can be an issue - that a community's needs don't jive well with the pool's schedule.

However, Watson says, they are working on a solution that will make the program even more user friendly. Under the proposed program, IFA would front the debt for the borrower from their own funds, repaying themselves from the pool bond proceeds.

"Say you come in in December and you miss the December issue, but you need the money for January," said Watson, "we have a program that we think will be able fund a local government as long as they do everything they're supposed to do within a 45-day window. Within 45 to 60 days we can have you in and out the door with your money. We would then just roll you into the next pool."

IFA would have the ability to do that, according to Watson, because

the consolidation of two years ago expanded the authority's size and financial strength.

"I think any other institution would have trouble doing that at a market rate," Watson said.

Going back to its beginnings as the Rural Bond Bank in 1990, Watson estimates that the pooled bond program has helped about 300 communities and those communities have borrowed about \$300,000,000.

"I think that's a great track record," Watson said.

Want to participate in the Pooled Bond Program?

[Click here for IFA's easy-to-complete application.](#)