



BUILD PARTNERSHIPS

FINANCING OPTIONS
FOR ILLINOIS CITIES
AND VILLAGES

2025

This guide is designed to help your municipal team determine what financing options are available once the decision has been made to borrow money for a city or village financing. Please refer to page 10 for a quick reference chart of all available financing options.



What is a bond and why would municipalities want to issue a bond?

Bonds are a form of debt. In the public sector, “borrowers” or “issuers” of bonds are states, counties, cities, villages, school districts, and other local government entities that need money more immediately than incoming revenues can provide for a variety of reasons. Typically, a municipality will want to issue a bond and pay principal and interest over time. Issuing bonds allows the city or village to spread the payment burden for public infrastructure and other capital needs over the period of expected useful life of the financed assets.

If a municipality issues bonds, it is less likely that it will need to increase taxes to meet the municipality’s budgeted fund balances. Borrowing by a city or village is highly restricted, and the Illinois Municipal Code, as amended (the “Municipal Code”), and the Local Government Debt Reform Act of the State of Illinois, as amended (the “Debt Reform Act”), contain guidelines that must be followed as outlined in this guide.



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Use of bond proceeds by a municipality

Municipal bonds, or “munis” as they are commonly called, may be issued by a city or village for a variety of purposes, including capital projects, working capital needs, or the refinancing of prior debt.

A. New Projects. Typically, a municipality compiles an annual capital improvement budget or prepares a “needs list.” This list consists of projects the city or village considers to be important based on their impact on the:

- safety,
- resources, and
- general well-being of the community served by the municipality.

Capital projects may be funded by:

- federal or state grants,
- local improvement district assessments,
- service-area levies, and
- other miscellaneous revenue available for general purpose use.

However, the primary sources of funding to pay for capital projects within a city or village are from the proceeds of municipal bonds.

Common projects financed with bonds include the construction of, acquisition of, or improvements to:

- roads and bridges,
- water, sewer, or electrical facilities,
- municipal buildings, and
- economic development initiatives.

Capital projects can be of long-term value to residents of the city or village. Issuing bonds to fund a capital project allows current and future taxpayers within the city or village to pay related costs over the life of the project as they benefit from the completed project.

B. Covering short-term or long-term needs. Municipalities may issue bonds to fund working capital expenditures that arise from a variety of circumstances.

Traditionally, working capital bonds have been issued as short-term obligations where the proceeds are used to cover a municipality's temporary cash flow or operating deficit. Short-term budgetary deficits also may arise from a mismatch between the receipt of annual revenues (e.g., property taxes) and the timing of annual expenditures of the city or village within a year. Tax anticipation warrants ("TAWs") often are issued in anticipation of taxes levied, but not yet collected. TAWs may be issued in an amount up to 85% of the total amount levied for the particular fund against which the TAWs are issued and must have a specified due date.

Longer-term financings for working capital purposes have become more commonplace in recent times due to financial difficulties stemming from declines in property values and/or lower assessment repayment rates. Municipalities use these longer-term working capital bonds to close deficits that are not solely the result of a short-term mismatch of revenues and expenses.

Tax anticipation notes ("TANs") allow a municipality flexibility to balance its revenue collections from anticipated levies with anticipated expenditures. A city or village is permitted to incur debt by issuing TANs in an amount not exceeding 85% of the taxes levied for the particular fund against which the TANs are issued. Further, TANs are required to mature within two years and may not be issued if there is an unpaid note from any prior year. Although TANs are generally a means of balancing a municipality's operating



Municipalities may issue bonds to fund working capital expenditures that arise from a variety of circumstances.

expenses with revenue collections, TANs sometimes may be used to fund a pending capital project while the city or village structures more permanent funding.

Insurance reserve bonds, tort judgment funding bonds, interfund loans, and working cash fund bonds are permitted under Illinois law, assuming certain requirements are satisfied. The Internal Revenue Code of 1986, as amended (the "Tax Code"), imposes certain restrictions on making working capital financings on a tax-exempt basis.

C. Refundings/Refinancings. Like a homeowner who refinances a mortgage when interest rates drop, a city or village with outstanding debt may issue refunding bonds in order to take advantage of lower rates.

Refunding bonds also may be issued to avoid a default or restrictive debt burden. In general, refundings do not need to satisfy direct or backdoor referendum requirements or the requirements of the Bond Issue Notification Act ("BINA").

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Types of bonds

The various forms of bonds a municipality may issue to meet its financing needs include:

- general obligation bonds,
- funding bonds,
- revenue bonds,
- alternate revenue source bonds,
- debt certificates/installment contracts,
- leases,
- special service area bonds,
- special assessment bonds,
- tax increment bonds,
- TAWs,
- TANs,
- revenue anticipation notes, and
- limited bonds.

Refunding bonds generally are issued more frequently in lower interest rate environments.

A. General Obligation Bonds. General obligation bonds or “G.O.s” are debt issued by a municipality representing its full faith and credit and backed by its *ad valorem* taxing power. A G.O. may be issued for any lawful purpose for which *ad valorem* taxes may be levied, subject to constitutional, statutory, or other limitations (such as debt limitations discussed below) and procedures.



Differences in procedures and limitations may apply to cities or villages depending on their status as home rule or non-home-rule units of government and whether the city or village is located in a county subject to a tax cap on property taxes.



Differences in procedures and limitations may apply to cities or villages depending on their status as home-rule or non-home-rule units of government and whether the city or village is located in a county subject to a tax cap on property taxes.

1. Home Rule. Under the 1970 Illinois Constitution, home-rule power shifts decision making from the state level to the local level enabling more flexibility. Home-rule municipalities are granted a broad range of powers unless exempted by the state. Municipalities with populations over 25,000 are automatically granted home-rule status, while smaller communities may put the question on a ballot and let voters decide.

Home-rule units may constitutionally tax anything that is not income, occupations, or earnings and are not susceptible to a tax cap on property taxes unless imposed by further voter action.

2. Non-home Rule

a. Authority. Unless an exception applies, the Municipal Code requires that G.O.s secured by an *ad valorem* tax must be approved by voters of a non-home-rule city or village in a referendum. However, the referendum requirement has many exceptions, including, but not limited to:

- alternate revenue bonds (as discussed below),
- refunding bonds,
- bonds to fund or refund debt related to a judicial judgment,
- working cash fund bonds,
- bonds used to pay pollution abating costs mandated under the Environmental Protection Act,
- bonds issued to pay for costs related to improvements of water or wastewater treatment facilities mandated by federal or state regulators, or
- bonds issued pursuant to the Municipal Code in an amount not to exceed one-half of one percent of the equalized assessed value (“EAV”) of the taxable property of the issuer.

Non-home-rule municipalities generally have no authority to mortgage municipal property.

b. Statutory Debt Limit. Non-home-rule cities and villages are subject to the statutory debt limit of 8.625 percent of EAV as set forth in the Municipal Code. The principal amount, and only the principal amount, of all outstanding general obligation bonds and debt of a city or village is counted for purposes of the statutory debt limit. Also counted is the principal amount due under an installment contract or lease agreement.

Any obligation of a city or village that is payable solely and only from a limited source or fund of the municipality is not considered debt subject to the statutory debt limit. Obligations excluded from the debt limit include alternate revenue source bonds, revenue bonds, special assessment bonds, and tax anticipation warrants.

B. Alternate Revenue Bonds. Alternate revenue bonds, also known as “double-barreled” bonds (“ARBs”), are essentially revenue bonds with the general obligation of the municipality serving as backup security for the bonds.

Non-home-rule municipalities are authorized under the Debt Reform Act to use any lawfully available revenue source as a pledge of security for the payment of principal and interest on the ARBs.

The intent of the Debt Reform Act is to permit the issuance of the ARBs assuming the pledged revenue source is sufficient to pay debt service on the ARBs by itself, so the tax levy simultaneously authorized to pay debt service on the ARBs does not need to be extended. The coverage requirements set out in the Debt Reform Act provide that the municipality must demonstrate that such pledged revenue source will be sufficient in each year the bonds are outstanding to provide not less than 1.25 times (1.10 in certain circumstances) the debt service on all outstanding ARBs payable from that revenue source and on the ARBs proposed to be issued.

In addition to coverage requirements, ARBs are subject to a backdoor referendum process that includes:

- The municipality’s governing body* adopts an ordinance declaring the municipality’s intent to issue bonds for a qualifying purpose,
- The ordinance and a notice of intent to issue the bonds are published in a newspaper within the municipality or having a general circulation within the municipality, and
- The notice must inform voters of the municipality’s intent to issue bonds unless a minimum number of voters sign a petition and present the petition to the clerk of the municipality within 30 days of publication of the notice.

**For a city, this will be the mayor and city council. For a village, this will be the village president and board of trustees.*



Non-home rule cities and villages are subject to the statutory debt limit of 8.625 percent of EAV as set forth in the Municipal Code.

The backdoor referendum process gives voters in the municipality the opportunity to petition the municipality, requiring it to submit the question of issuing the ARBs to referendum. However, the petition must be submitted within 30 days after publication of a notice and authorizing ordinance and be signed by the greater of: (i) 7.5% of the registered voters of the municipality or (ii) the lesser of 200 registered voters or 15% of the registered voters.

In municipalities with fewer than 500,000 inhabitants, other than most public infrastructure projects, the necessary number of petition signers for a city or village with more than 4,000 registered voters is the lesser of (i) 5% of the registered voters or (ii) 5,000 registered voters and the necessary number of petition signers for a city or village with 4,000 or fewer registered voters is the lesser of (i) 15% of the registered voters or (ii) 200 registered voters.



Leases that are structured as financing leases are generally subject to statutory debt limits.

C. Leases. Municipalities are authorized under the Municipal Code to enter into multi-year lease, purchase, and lease-purchase contracts in order for equipment and property to be acquired.

Leases that are structured as financing leases are generally subject to statutory debt limits. Additionally, a number of conditions are imposed upon such lease agreements.

D. Debt Certificates/Installment Contracts. Cities and villages are authorized to borrow money by entering into installment finance agreements. There are statutory specifications as to what constitutes an installment contract. The Debt Reform Act authorizes municipalities to purchase or lease either real or personal property through the use of installment contracts not exceeding 20 years in length. Debt certificates may be issued by a city or village to evidence the payment obligations of the municipality under a lease or installment contract, subject to the statutory debt limit of the city or village. There is generally no separate tax levy available for the purpose of making such payments; the payments are considered a promise to pay by way of budgetary appropriation. However, a municipality not subject to PTELL (as hereinafter defined) may enter into an installment contract payable from a direct, unlimited *ad valorem* property tax levy sufficient to pay the installments, if certain backdoor referendum requirements are satisfied. The debt certificates are valid regardless of whether an annual appropriation is included in any annual or supplemental budget adopted by the city or village.

E. Limited Bonds. Limited bonds are issued in lieu of G.O.s that have otherwise been authorized by applicable law. These bonds are payable from a separate property tax levy with no limitation on the rate.

However, PTELL restricts the amount of taxes that may be extended to pay the bonds. The amount of this limitation is the municipality's debt service extension base, which is the sum of all non-referendum bond levies for the year in which the county in which the municipality is located became subject to PTELL.



F. Promissory Notes. Cities and villages are also legally permitted to borrow money from a financial institution pursuant to a promissory note or similar debt instrument that is a lawful direct general obligation of the municipality payable from the general funds of the municipality and other sources of payment as are otherwise lawfully available, subject to statutory debt limits.

G. Revenue Bonds. Cities and villages have the ability to issue revenue bonds for a proper public and corporate purpose, which includes a variety of potentially revenue-producing undertakings such as facilities financed with tax increment, transportation facilities, water and sewer systems, solid waste operations, libraries, sports facilities, exhibition facilities, housing, parking, and jails. Revenue bonds generally do not require voter approval or a BINA hearing. There are two main limitations for revenue bonds in the case of non-home-rule municipalities:



Revenue bonds are not considered debt for purposes of statutory debt limits.

1. There must be a revenue source related to the purpose for the bond issuance. For example, water revenue bonds may be issued to acquire or improve water systems. Water revenue bonds may not be issued to acquire new police cars in a non-home-rule unit.
2. There must be a specific statutory grant of power to operate the revenue-producing undertaking as listed above. A positive aspect of revenue bonds is that there is no legal limit on the amount of revenue bonds that may be issued by a non-home-rule unit.

Revenue bonds are often subject to a backdoor referendum. However, revenue bonds are not considered debt for purposes of statutory debt limits.

H. Special Service Area Bonds. A special service area is a contiguous area within a municipality in which special governmental services are provided in addition to those services provided generally throughout the municipality. The cost of providing the special services is paid from revenues collected from taxes levied upon the property within the contiguous area receiving the special services.

In order to establish a special service area, the city or village must give notice and hold a hearing allowing the public and any interested person to object to the creation of the special service area. Such hearing must be held within 60 days after adoption of an ordinance proposing the creation of the special service area, and the notice must be (i) published at least once in a newspaper of general circulation in the municipality at least 15 days prior to the hearing and (ii) mailed to the person(s) in whose name the general taxes for the last preceding year were paid on each property lying within the proposed special service area not less than 10 days prior to the hearing.



If, within 60 days after the public hearing, a petition signed by not less than 51% of the electors residing within the proposed special service area and 51% of the owners of record of land within the proposed special service area is filed with the municipal clerk objecting to the creation of the special service area, the area may not be created and the bonds may not be issued. If no objecting petition has been filed, the ordinance establishing the service area, whether it was amended after the public hearing or not, must be filed with the county recorder within 60 days of its adoption.

Bonds may be issued for the purpose of financing the costs related to providing the special service. The special service area bonds are secured by the full faith and credit of the taxable real property in the special service area. To provide for the special tax, the county clerk where the municipality is located will extend an annual tax against all of the taxable real property in the special service area in amounts sufficient to pay the debt service on the bonds. The tax is typically allocated to the property owners on an *ad valorem*, benefits, acreage, or other rational basis.

I. Tax Increment Finance Bonds. Tax increment finance (“TIF”) bonds are those issued by cities or villages to finance a project and use the future incremental property tax growth from that project or other projects in the TIF district or a contiguous district to repay the debt service on the TIF bonds. Before issuing bonds and collecting incremental property tax revenues, a TIF district must be formed. In order to establish a TIF district, a local government must find that development or redevelopment of the area would not occur “but for” the creation and use of TIF, and a number of requirements must be satisfied for an area to qualify as a TIF district, as described below. A TIF district is formed by ordinance. However, prior to adopting the ordinance the municipality must hold a public hearing and convene a joint review board to consider the proposed TIF district.

After considering comments from the hearing and the joint review board, the municipality may adopt the ordinance creating the TIF district.

Certain Illinois statutory controls are in place to monitor a TIF district:

- TIF must be for a legitimate public purpose (improve a blighted area),
- TIF must be necessary (“but for” test),
- TIF projects are feasible (based on a feasibility study or cost-benefit analysis),
- TIF projects are appropriately planned (requires a formal project plan), and
- TIF projects perform as intended (proven by filing a timely annual report with state comptroller).

Once a TIF district begins to perform and the municipality begins to receive the increment revenues, those revenues may be pledged to secure the issuance of TIF bonds. TIF bonds may be issued as G.O.s (usually by a home-rule unit), alternate bonds issued pursuant to the Debt Reform Act, or general obligation TIF bonds issued using the specific procedures in the TIF Act which do not have a coverage requirement, but do have a backdoor referendum requirement.

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J. Summary of Bonds Issued by Cities and Villages Under Illinois Law

TABLE OF FINANCING OPTIONS USING BONDS FOR ILLINOIS CITIES AND VILLAGES

Type of Debt	Security	General Requirements
General Obligation: Home Rule	Full faith and credit; backed by the <i>ad valorem</i> taxing power of the Issuer.	No statutory debt limit and no need for voter approval to issue bonds.
General Obligation: Non-Home Rule	Full faith and credit; backed by the <i>ad valorem</i> taxing power of the Issuer.	Referendum unless exception. Statutory debt limit of 8.625% of EAV ("Statutory Debt Limit"). BINA hearing required.
Alternate Revenue Bonds	"Double-barreled"- payable from a specific revenue source with the general obligation of the municipality serving as backup security.	Pledged revenues must meet coverage requirement of 1.25 times (1.10 in certain instances) debt service. Backdoor referendum procedures and BINA hearing required.
Leases	No separate tax levy backing; obligation is a promise to pay from lawfully available funds.	Subject to Statutory Debt Limit.
Debt Certificates	No separate tax levy backing; obligation is a promise to pay from lawfully available funds.	Borrow money by entering into installment contract agreement. No backdoor referendum or BINA hearing required. Subject to Statutory Debt Limit.
Promissory Notes Payable to Financial Institution	No separate tax levy backing; obligation is a promise to pay from lawfully available funds.	Borrow money by entering into promissory note or similar debt instrument. Subject to Statutory Debt Limit.
Revenue	Specific revenue source.	Varies by type of revenue. Backdoor referendum may be required. BINA hearing not required.
Special Service Area	Full faith and credit of the taxable real property in the special service area.	Need hearings, notice, and various other requirements.
Tax Increment Finance Revenue	Future incremental property tax growth from project, TIF area, or contiguous TIF district.	Validly created TIF; TIF-eligible costs only.

Types of Bond Sales

Once the municipality makes a decision to raise capital by means of issuing bonds, it must next consider which method of finding a “lender” or buyer of the bonds works best. Illinois municipalities have flexibility as to the method of sale. A competitive sale is not required. The method by which to attract potential investors of bonds can be a critical component to the resulting interest rate the city or village will pay to service its bonds. A credit rating is not legally required to be obtained by the city or village in order to issue bonds; however, a rating may help lower interest costs, particularly in the case of public bond issuances. The following are various ways of offering bonds to “lenders” or buyers:



Illinois municipalities have flexibility as to the method of sale. A competitive sale is not required. The method by which to attract potential investors of bonds can be a critical component to the resulting interest rate the city or village will pay to service its bonds.

A. Negotiated Sale. In a negotiated sale, the process begins with the municipality choosing an underwriter (or managing underwriter, if more than one underwriter). The municipality and the underwriter then negotiate the terms of the offering. Once terms of the offering are determined, and assuming all procedural issuance requirements are met by the city or village, the underwriter will buy the bonds from the city or village and remarket them to its investors.

B. Competitive Sale. In a competitive sale, bonds are advertised for sale. The announcement, by way of a notice of sale, includes both the terms of the sale and the terms of the bond issue. Any investment bank, broker-dealer or dealer-bank may bid on the bonds at the designated date and time in a “blind” fashion (meaning each bidder has no knowledge of the other bids). The bidder with the lowest total interest cost is awarded the bonds.

C. Direct Placement. Direct placement or direct lending in the context of municipal bonds refers to any arrangement in which a single lender/buyer (e.g., a bank, pension fund, mutual fund, etc.) purchases the bonds of the city or village directly. This form of sale also may be described as a private placement, direct purchase or bank loan. Direct placements are an attractive option for a city or village, and they allow the municipality to avoid:

- instability in public markets,
- continuing disclosure requirements,
- the rating process, and
- additional issuance costs associated with a public offering.

D. Bank Qualified or Non-Bank Qualified. In agreement with Section 265(b)(3) of the Tax Code, banks and savings and loans are not permitted to deduct interest expenses attributable to tax-exempt bonds acquired after the passage of the Tax Reform Act of 1986, or August 1, 1986, unless the “small issuer exemption” applies. If a municipality anticipates that it will not issue more than \$10 million of tax-exempt debt during the calendar year and the debt is designated as a “qualified tax-exempt obligation” according to Section 265(b)(3), the restriction on the deduction for interest expense would then not apply. Issuing so-called bank-qualified bonds or “BQ” bonds may reduce the interest rate on the bonds since banks that purchase BQ bonds do not have a restriction on their interest expense deduction.



Relevant Laws

Adherence to both federal and state law is a requirement of any bond issuance in order for the borrowing to be binding and legally valid. Below are a few of the current laws governing the borrowing activities of cities and villages:

A. Illinois State Law. The Municipal Code, the Debt Reform Act, PTELL, BINA, the Bond Authorization Act of the State of Illinois, the Registered Bond Act of the State of Illinois, and the Bond Replacement Act of the State of Illinois all authorize and govern the issuance of municipal bonds by Illinois cities and villages.

The Debt Reform Act was adopted by the Illinois General Assembly to provide supplemental authority to local governmental units regarding the issuance and sale of bonds to accommodate market practices that resulted in additional costs for citizens residing in local governmental units who were affected by higher rates than necessary. Pursuant to the Debt Reform Act, whenever the authorization or issuance of bonds is subject to either a voter or backdoor referendum, the approval, once obtained, remains effective for: (a) five years after the date of the referendum or (b) three years after the end of the petition period for the backdoor referendum.

Pursuant to BINA, non-home rule municipalities proposing to sell non-referendum G.O.s, ARBs or limited bonds, except refunding bonds, must:

- hold at least one public hearing concerning the municipality’s intent to sell the bonds,
- publish a notice of the hearing in a newspaper of general circulation in the city or village by the municipal clerk not less than 7 but not more than 30 days prior to the hearing,
- post the notice of the hearing at the municipality’s primary office, and
- wait at least 7 days following the adjournment of the hearing before adopting an ordinance providing for the issuance of the bonds.



Adherence to both federal and state law is a requirement of any bond issuance in order for the borrowing to be binding and legally valid.

B. Property Tax Extension Limitation Law of the State of Illinois (“PTELL”). PTELL limits the annual growth in the amount of property taxes to be extended for certain Illinois governmental units. In general, the annual growth allowed is the lesser of 5% or the percentage increase in the Consumer Price Index during the calendar year preceding the levy year. Taxes also may be increased due to new construction and referendum-approved tax rate increases.

PTELL currently applies to Cook County, the collar counties and counties that have approved PTELL by referendum. Under PTELL, the county board of any county may initiate a binding tax-cap referendum at any regularly scheduled election. If the referendum is successful, then PTELL will become applicable to those non-home rule taxing bodies in the county beginning January 1 of the following year.

Municipalities subject to PTELL are able to issue bonds in lieu of G.O.s payable from a separate tax levy unlimited as to rate, but limited as to amount. Limited bonds are payable from the municipality’s debt service extension. PTELL does not restrict ARBs or referendum-approved G.O.s.

Illinois legislators have previously introduced proposals to modify PTELL including freezing property taxes (the “Property Tax Freeze Proposal”). If the Property Tax Freeze Proposal or similar legislation were to become law, such reform could make PTELL applicable to home rule units and all counties in Illinois.

C. Federal Income Tax Law. The Tax Code and the arbitrage and rebate regulations promulgated thereunder (the “Regulations”) govern the tax-exempt status of municipal bonds. Upon the issuance of any municipal bond, the municipality will covenant to follow certain federal rules and regulations in order to maintain the tax-exempt status of the interest on the bonds. These covenants include reasonable expectations that the bonds are not private activity bonds, which generally benefit a private entity. They also cannot be arbitrage bonds, which are issued to profit from the difference between tax-exempt and taxable interest rates, pursuant to the Tax Code and the Regulations.

D. Securities Laws. Rule 10b-5. Rule 10b-5 (“Rule 10b-5”) of the Securities Exchange Act of 1934 (the “Securities Act”), states that: It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce or of the mails or of any national securities exchange:

- to employ any device, scheme, or artifice to defraud,
- to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, or
- to engage in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security. 17 C.F.R. §240.10b-5.



Municipalities subject to PTELL are able to issue bonds in lieu of G.O.s payable from a separate tax levy unlimited as to rate, but limited as to amount.

Rule 10b-5 sets out the general statement of federal intent to protect investors against misleading statements or omissions of important facts in official statements or other documents pertaining to the bond issuance. Full disclosure for bond purposes means disclosure of all information material to investors. Securities and Exchange Commission (the “SEC”) enforcement actions (including fines and, in some cases, jail time for public officials) indicate a vigorous enforcement initiative targeting bad disclosure practices by issuers, and their officials. Issuers should adopt “best practices” to protect themselves and their officials from antifraud provisions including, but not limited to, hiring disclosure counsel, which is typically a law firm representing the issuer on disclosure issues and the adoption of effective policies and procedures that ensure appropriate disclosure. Based on enforcement actions against big and small issuers (ranging from large states to small local municipalities), claiming “small unsophisticated issuer” as a defense is likely insufficient.

E. Continuing Disclosure. Rule 15c2-12 governs the preparation and distribution of official statements for municipal securities. While this Rule applies primarily to directly regulated entities, such as underwriters, broker-dealers and dealer-banks, a significant portion of the burden of compliance with Rule 15c2-12 falls on the issuer to supply certain information and disclosure and to take the proper steps to comply with the Rule in a timely fashion. As an example of the importance of meeting continuing disclosure requirements, the SEC

charged an Indiana school district and a municipal bond underwriter with falsely stating to bond investors that the district had been properly providing annual financial information and notices required as part of its bond offerings in 2013. Without admitting to or denying the SEC’s findings, the district was ordered to cease and desist from violating securities laws and undertake remedial actions, and the underwriter agreed to a \$580,000 fine along with a one-year collateral bar and permanent supervisory bar for one of its employees. In 2014, the SEC announced its Municipalities Continuing Disclosure Cooperation Initiative to address potentially widespread violations of the federal securities laws by municipal issuers and underwriters of municipal securities in connection with certain representations about continuing disclosures in bond offering documents.

F. State Blue Sky Laws. The offering, sale, and purchase of securities in Illinois are governed by the Illinois Securities Law of 1953 (the “Blue Sky Law”). The Blue Sky Law provides for registration of securities and the licensing and regulation of securities broker-dealers, agents, investment advisers, and investment adviser representatives. Subject to statutory exemptions or exceptions, offers and sales of securities in Illinois that are not covered by federal securities law must be registered by coordination or qualification procedures, as applicable. Registration statements for offerings registered by qualification in Illinois must contain full and fair disclosure of all material facts regarding the investment offered and present specific categories of information and financial statements pursuant to the Blue Sky Law.



Full disclosure for bond purposes means disclosure of all information material to investors.

Municipal Advisor Rules. Pursuant to the SEC's rules for municipal advisors:

- Municipal advisors are subject to registration requirements,
- Guidance on definition of municipal advisor is provided, and
- Limitations on underwriters are provided.

An underwriter is exempted from registering as a municipal advisor as long as certain protocols are followed. To qualify for the underwriter exemption, the underwriter must have an engagement to act as underwriter on a specific issuance of municipal securities. Inclusion in a pre-approved underwriting pool is not sufficient. The engagement letter should state the following:

- it is preliminary and non-binding,
- it is subject to:
 - a. applicable procurement laws,
 - b. formal governing body approval,
 - c. final bond structuring, and
 - d. execution of a bond purchase agreement,
- it may be terminated by either party without liability, and
- it does not prevent the issuer from engaging other underwriters or from selecting a different underwriting group.

Oral or written acknowledgment of the engagement from the issuer/obligated person is permitted. A preliminary, non-binding engagement is permitted so long as the issuer (obligated person) reasonably expects to formally engage the broker-dealer as underwriter. Multiple engagements are permitted, and there is no need to specify status as senior or co-manager.

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