

## **FINANCIAL AFFAIRS**

### **Can a city or town borrow money for operating purposes?**

Generally speaking, no. See Article 12, Section 4 as amended by Amendment 10 of the Arkansas Constitution. The Constitution prohibits municipalities from deficit spending or entering into any interest-bearing indebtedness. Any city official violating these constitutional prohibitions may face criminal charges. The penalties are a fine of not less than \$500 nor more than \$10,000 and the official “shall be removed from office.”

A big exception to this rule was enacted in November 2000. Arkansas voters approved amendment 78 to the state constitution, which allows for short-term financing. The amendment permits municipalities to enter into short-term financing 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 ... ”

The financing may extend for up to five years. There is a dollar limit on the amount a city may finance: a city’s total amount of short-term obligations under the amendment may not exceed five percent of the assessed value of taxable property within the municipality. Amendment 78, along with the entire Arkansas Constitution, has a Web site, <http://www.accessarkansas.org/bank/formularate.html>.

Other statutory provisions will allow municipalities to “borrow money” via non-interest bearing “evidences of indebtedness” for ordinary operating expenses in anticipation of the collection of property tax monies. Ark. Code Ann. § 14-58-401 to 403. The uncollected property taxes serve as security for the loan and are assigned as a method of repaying the indebtedness. A second loan provision is found in Ark. Code Ann. § 19-3-401 to 403, which allows for temporary loans from the State Board of Finance which must be paid back within the calendar year.