

Manuscript Debt for County Treasurers

Legal and Practical Considerations

**County Treasurers Association of Ohio
Fall Conference
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- Obligations (Bonds And Notes) Issued By Political Subdivisions
 - E.g., Townships, Cities, Villages, School Districts, Counties
- Financing For “Permanent Improvements”
 - Useful Life Of Five Years Or More
 - Not Operating Expenses Unless Repaid In Same Fiscal Year

Whose “Debt”?

- Literally means “hand written”
- Prior To 1984, Most Municipal Obligations Were Issued In “Bearer” Form
 - Whoever Tendered The Instrument On The Payment Date Was Entitled To Payment
 - Like A Check Made Out To “Bearer”
- Counterfeiting A Major Concern
- So, Practice Developed Of Having The Debt Instruments Printed By A Financial Printer
 - Typeset
 - Engraved Paper

**Why Is It Called “Manuscript”
Debt?**



UNITED STATES OF AMERICA
STATE OF OHIO
COUNTY OF GREENE

Township of Miami

FIREHOUSE BOND

KNOW ALL MEN BY THESE PRESENTS, that the Board of Township Trustees of the Township of Miami, County of Greene, State of Ohio, acknowledges itself to owe and for value received hereby promises to pay to bearer the sum of

FIVE THOUSAND DOLLARS

ON THE FIRST DAY OF DECEMBER, 1990,

with interest thereon from the date hereof at the rate of

EIGHT PER CENTUM (8%)

per annum, payable June 1, 1981, and semiannually thereafter on the 1st day of December and the 1st day of June in each year, as evidenced by the coupons hereto attached, until the principal sum is paid. The principal sum and interest thereon are payable in lawful money of the United States of America at The Miami Deposit Bank, Yellow Springs, Ohio, upon presentation and surrender of this bond and the coupons hereto attached as they respectively mature, without deduction for exchange, collection or service charges.

This bond is one of an issue of thirty (30) serial bonds of like tenor and effect, except as to maturity, of the denomination of \$5,000 each, numbered from 1 to 30, inclusive, aggregating in the amount of \$150,000, and issued for the purpose of providing a building for fire equipment and apparatus under authority of the general laws of the State of Ohio, particularly the Uniform Bond Law of the Ohio Revised Code, by virtue of the requisite majority vote of the electors of said township voting upon said proposition at the primary election held on June 3, 1980, and pursuant to a resolution duly adopted by the board of township trustees of said township on July 7, 1980.

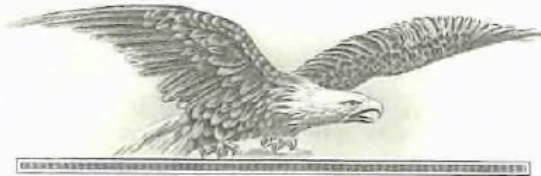
AND IT IS HEREBY CERTIFIED AND RECITED that all acts, conditions and things necessary to be done precedent to and in the issuing of these bonds in order to make them legal, valid and binding obligations of the board of township trustees of said township have been done, have happened and have been performed in regular and due form as required by law; that the full faith, credit and revenue of the board of township trustees of said township are hereby irrevocably pledged for the prompt payment of the principal and interest thereon at maturity; that no limitation of indebtedness or taxation, either statutory or constitutional has been exceeded in issuing these bonds; and that due provision has been made for levying and collecting an unlimited annual ad valorem tax upon all of the taxable property in said township sufficient in amount to pay the interest on these bonds as it falls due and to provide for the redemption of said bonds at maturity.

IN WITNESS WHEREOF, the Board of Township Trustees of the Township of Miami, county and state aforesaid, has caused this bond to be officially signed by at least two members of said board of township trustees and to bear the facsimile signature of the county auditor of the county aforesaid and a facsimile of the official seal of said county auditor and the coupons attached hereto to bear the facsimile signature of said county auditor as of the 1st day of September, 1980.

Robert J. Shaw
SPECIMEN
County Auditor



SPECIMEN
Township Trustees



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- But Financial Printers Were A Significant Expense
 - Especially For Smaller Transactions Or Private Placements (Not Sold To The Market At Large)
 - Also Time-Consuming
- Solution: Use A Hand-Written Bond Form
 - Later, Typed And Today Word-Processed
- Address Counterfeiting By Using “Registered” Form Instead Of “Bearer”
 - Payable To A Specific Person – Like A Stock Certificate

**Why Is It Called “Manuscript”
Debt? (continued)**

- So, A Bond Or Note Form That Was Not Prepared By A Financial Printer Became Known As “Manuscript Debt” Even Though Hand-Writing Has Been Replaced By Word Processing
- Could Crypto Be The Next Type Of Manuscript Debt?

Why Is It Called “Manuscript” Debt? (continued)

- Political Subdivision's Perspective
 - Avoid Expense Of Public Sale Or Placement With A Bank
 - E.g., Underwriter and Rating Agency Fees
 - Especially Where The Amount Needed Is Relatively Small
 - Unrated Credit Or No Credit History
 - Ease Of Access
 - Get A Break On The Interest Rate Compared To The Public Market Or Local Bank?

Why The County Treasurer?

- **County Treasurer's Perspective**
 - Actively Promote Funding Qualified Projects for Local Jurisdictions
 - Achieve Higher Yields (Taxable Bank Yields)
 - Assess Risk First Hand (Budget Commission)
 - Mitigate (or Eliminate) Risk of Default
 - Help the Local Community By Facilitating Lower Cost Borrowings at Competitive Interest Rates
 - Win/Win?

**Why The County Treasurer?
(continued)**

- **Jargon Alert!**

- In Economic Terms, A Loan Is Being Made From The County Treasurer To A Political Subdivision
- However, In Municipal Bond Parlance, An “Issuer” [Political Subdivision] Is Selling Its “Obligation” [Bond Or Note] To The “Original Purchaser” [County Treasurer] In Exchange For The “Purchase Price” [Loan Amount]
- Why? Because Ohio Law Authorizes Political Subdivisions To Issue Obligations
 - Not Authorized To “Get A Loan”

The Process

- A Political Subdivision Has A Borrowing Need
- County Treasurer Is Approached To See If Interested In Being The Lender
- If Interested, County Treasurer Performs Due Diligence And Makes Purchase Decision
- If Purchase Is A “Go”, County Treasurer Proposes Terms
 - Interest Rate, Length of Loan, Payment Frequency

The Process (continued)

- If Terms Are Accepted, Documentation Begins
 - Authorizing Resolution or Ordinance
 - Bond Or Note Form
 - Closing Papers
- Authorizing Resolution Adopted
- Documents Signed
- Closing Occurs
 - Signed Bond Or Note Delivered By Political Subdivision To County Treasurer In Exchange For The Principal Amount Of The Bond Or Note

The Process (continued)

- What Interest Rate to Charge?
 - No Legal Restriction Except When Purchasing County Obligations (See Later)
 - Reflect Risk Of The Transaction
 - Taxable vs. Tax-Exempt
 - County Treasurer Investments Are Not Subject to Income Tax, So Rate Should Be a Taxable Rate
 - Even So, There Are Times Where Interest Rates Are Compressed Meaning Taxable Rates May Not Be Much Higher Than Tax-Exempt Rates Anyway
 - State Auditor Concerns?

The Process (continued)

- Other Terms?
 - Principal Payment Frequency and Amounts
 - Interest Payment Frequency and Basis
 - Duration Of The Loan
 - Security
 - Optional Redemption (Prepayment)
 - Special Covenants

The Process (continued)

- Acts As Special Counsel To The Political Subdivision
- Prepares All Necessary Documentation
- Gives Approving Legal Opinion To County Treasurer:
 - Bond Or Note Is A Valid And Binding Obligation Of The Political Subdivision Enforceable In Accordance With Its Terms
- Bond Counsel Does Not Opine On:
 - Financial Matters (e.g., Creditworthiness, Appropriateness Of Investment)
 - Legality Of Investment By County Treasurer

The Role Of Bond Counsel (If Used)

- Usually, Lower Cost Items Such As:
 - Fire and EMS Equipment
 - Road Equipment
 - Computers and Communications Equipment
 - Law Enforcement Vehicles
- But Sometimes, Big Ticket Items Such As:
 - Fire Stations
 - Government Buildings

**Typical Projects Financed With
County Treasurers**

Is It Politically Feasible?

Is It Economically Feasible?

Is It Legally Permissible?

**Considerations In Investing In
Manuscript Debt, Including Risk
Assessment**

- Does It Advance The Mission Of The County Treasurer's Office?
 - Depends On The Definition Of That Mission
 - Efficient Collection Of Taxes And Other Moneys Owed to the County?
 - Prudent Stewardship of County Funds?
 - Maximizing Return On Investment Of County Funds?
 - Assist Local Governments With Their Financial Needs?
 - Others?
 - All Of The Above?

Is It Politically Feasible?

- Is County Investment Committee Willing To Authorize Such Investments?
- Do For Some But Not Do For All?
- Must Be Prepared To Act As A Lender, Including Being Unpopular By Saying “No” Or If There’s A Default
- Risk/Reward Compared To Alternatives For Investing County Funds
 - Investment Risk And Liquidity Risk
- Competing With Local Banks

Is It Politically Feasible?
(continued)

- What Sort Of Security May A Political Subdivision Give Its Creditor
 - General Obligation vs Special Obligation
 - General Obligation
 - Full Faith and Credit
 - Pledge of Tax Revenue Required By Ohio Constitution
 - Annual County Budget Commission Review

Is It Economically Feasible?

General Obligation (continued)

- Two Types: Unvoted And Voted

- Unvoted

- The Tax Pledged Is A Portion Of The Political Subdivision's Unvoted ("Inside") Property Tax Millage

- Voted

- The Tax Pledged Is A Special Property Tax With Millage Calculated To Pay The Debt Service On The Bonds

- Special Obligation

Payable Only From Specified Revenue Stream Pledged To The Repayment

E.g., water revenues

Is It Economically Feasible? (continued)

- Where Will The Money To Repay The Loan Come From?
 - Are There Contingencies (Say, A Successful Tax Levy Election)?
- Is The Political Subdivision Creditworthy?
 - History Of Stability And Responsibility?
- Can The County Treasury Afford It?
 - Inactive Moneys Only
 - Investment Will Not Be Liquid
 - Other Demands On Those Moneys

Is It Economically Feasible?
(continued)

- Restrictions On Borrowings By Political Subdivisions
 - Purpose
 - Generally, Only “Permanent Improvements”
 - Useful Life Of Five Years Or More
 - Generally, No Operating Expenses Unless Repaid In the Same Fiscal Year
 - Duration
 - E.g., Ohio Revised Code 133.20
 - Debt Limitations
 - Constitutional
 - Statutory

Is It Legally Permissible?

- Restrictions On Investments By County Treasurers
 - County Investment Policy
 - Ohio Revised Code (ORC) Chapter 135
 - ORC 135.35(A)(4):
 - "Bonds and other obligations of this state or the political subdivisions of this state, provided the bonds or other obligations of political subdivisions mature within ten years from the date of settlement;"

**Is It Legally Permissible?
(continued)**

- Other “Free Standing” ORC Investment Provisions Such As:
 - ORC 133.03(A)(1) Uniform Public Securities Law)
 - ORC 351.11 (Convention Facilities Authorities)
 - ORC 1545.27 (Park District Revenue Bonds)
 - ORC 5540.06(L) (Transportation Improvement Districts)

**Is It Legally Permissible?
(continued)**

- Peculiarities Of Investing In Obligations Of The County Treasurer's Own County
 - ORC 133.29(A) Authorizes The Offer Of County Obligations To County Treasurer
 - ORC 133.29(B) County Auditor Must Certify That The Interest Rate is "a fair market rate or rates for such securities at the time of the sale"
 - But County Auditor Isn't In The Investing Business

**Is It Legally Permissible?
(continued)**

Another Investment Option For County Treasurers

A Matter of Policy

- Art, Not Science
- Is Manuscript Debt A Good Fit For Your Situation?
- Stay In Comfort Zone

Part of an Investment Mix

Monitor as Financial Markets Change / Will Evolve in the Years to Come

Conclusion

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