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THE FUNDING OF LOCAL GOVERNMENT INVESTMENTS FROM SOURCES ATTRACTED OFF CAPITAL MARKET

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***Abstract**: Local development process involves the interventionist policy of local authorities who come to resort to public borrowing. The diversity of financing arrangements derived from very different situations on the local structure and local finances. Financial resources on which local authorities can act directly represent a small fraction of the total local budget resources. Therefore, accessing financial resources from the financial-banking market is becoming a common practice of local authorities in their efforts to implement sustainable development strategies by local public investment projects.*
***Keywords**: local government investments, sustainable development strategies, local government debt*

Need for local economic development and local finances attributed, in particular, local resource management an important place in the generation of local development. Local development process involves a policy of interventionist public authorities so that the main way of funding is the public-from the local authorities and the central government. After depletion of how public funding, private funding is used to (local public loans).Accessing financial resources financial and banking market (municipal credit) is becoming a common practice of local authorities in their efforts to implement sustainable development strategies by local public investment projects.

1. FINANCING OF PUBLIC PROJECTS BASED ON BOND ISSUES

Principles of local autonomy allows public authorities to fill the need for financial resources by accessing national or international capital markets by issuing securities or borrowing from commercial banks or other credit institutions. Decision to contract a loan bond market decision belongs only local bodies (city council, municipal or county) that the vote of at least two thirds of the councilors in office, may approve the issuance of securities. Credits obtained by issuing bonds are part of local government debt.

Local government debt is all payment obligations in, internal and external, local government authority, at a time, from the loans contracted or guaranteed by domestic and foreign capital. These loans contracted by local authorities are part of Romania's public debt, but not the debt or liability of the Government. Obligations for state and state guaranteed loans for a period of one year are limited by public debt ceiling set annually by law. Public debt ceiling (all financial obligations that can contract and ensure that central and local government authorities for a period of one year) is set annually by law and must not exceed 20% of their total revenues consist of taxes, fees, contributions and other payments, other income and allowances deducted from income tax.

Local government debt instruments are:

- securities (bonds);
- loans from banking companies or other credit institutions;
- temporary borrowing availability Treasury General Current Account;
- guarantees given by local authorities;
- credit provider;
- financial leasing.

The total amount of debt contracted by local government authority is entered in the register of local public debt of the authorities and reported annually by the financial statements. This register include information specifying the total amount of debt of local authorities and other information detailing debt and methodological standards established by the register of local government debt issued by the Ministry of Finance. Also, the total amount of guarantees issued by the local public administration will be registered in the local guarantees of the authorities and reported annually by the financial statements. This register contains information specifying the total amount of guarantees issued by the local government and other information detailing the safeguards set out detailed rules on the local register of guarantees issued by the Ministry of Finance.

Local authorities are required to transmit to the Ministry of Finance, within 10 days after the effective date of the loan contract, copies of each primary document stating: contracting / guaranteeing the loan, the addendum to the contract / agreement loan / guarantee, if changes were made to it, respecting contractual clauses. In order to assess local public debt, any payment obligation, expressed in a currency other than national currency is calculated in the rational, using the exchange rate communicated by NBR on the last day of reporting period covered. Local public debt service obligations or responsibilities are not the Government and will be paid from local budgets and local debt refinancing loans.

Structural explanations regarding municipal bonds at the local level

Municipal bonds (village) is a modern tool of local funding, but is used by some time in Romania. Municipal bonds are debt securities issued by administrative-territorial units of medium and long term to attract resources to finance specific investment objectives emerged in urban or economic projects.

For local authorities in Romania may resort to this method of financing was necessary to create the legal framework governing such programs. To justify the application, an issuer must establish to finance. Potential lenders will not finance a loan if I'm not sure who will be the destination of their money. This makes the projects financed by issuing municipal bonds to be more competitive and is constantly monitored by financial providers. Failure stated purpose would lead to loss of credibility of the local authority, which would make it particularly difficult to attract future loans. Buyers, bond market investors are individuals and businesses in the country and abroad, who have temporary financial capital free, so the issue of bonds is based on an existing process savings.

The main differentiation is based on municipal bonds from sources of debt repayment, and in this sense, we distinguish:

a. municipal bond whose source of repayment is the general taxes levied by the issuing territorial administrative unit, if local taxes are insufficient to cover principal and interest payments, measures to increase local taxes;

b. municipal bond repayable on account of special taxes, to finance local interest objectives can be contracted loans whose repayment requires the establishment of special taxes, such as those on tourism activities, the sale of products, the use of public places etc.

c. municipal bond whose payment source are profits made in the provision of services such as water supply, electricity, sewerage, sanitation, transport, etc.. The development of these services can be achieved by means of a bond loan, whose repayment and interest payment will be made at the expense of future profits obtained through effective use of amounts borrowed;

d. municipal bonds paid from special revenue, such as those from rents, which means local government finance the construction of industrial, commercial or residential space, which then will be offered for lease to companies or individuals. Rents charged are the source of payment of interest and the amount to be refunded.

For additional resources need to be visible, you must turn in the application of capital market resources. However, certain conditions must be met for administrative and financial eligibility.

The main purposes for which municipal bonds are issued:

1. The financing of a new investment project. (this scale that they require funding over several years and not their full payment in one year)
2. Funding repairs and maintenance of assets held by the issuer
3. Refinancing of bonds already in circulation
4. Payment of current expenses

Often, a program can have nine more than one of these purposes. The experience of developed countries where the use of this instrument is made longer than in Romania has shown that the municipal bonds were mostly financed following projects:

General goals for use of municipal bonds

District	Goal / Purpose
Effectiveness	Water supply and waste water treatment plants, sewerage, gas and electricity and telecommunication systems
Transport	Roads, highways, parking lots, bridges, tunnels, airports, seaports, traffic signaling systems, streets, etc.
Education	Schools, universities, colleges, education credits (for students)
Buildings	Buildings of public authorities, schools, prisons, hospitals, libraries
Equipments	Computer, vehicles, offices, medical equipment, etc.
Public-Private Partnerships	Economic Development, stadiums, conference centers and other recreation facilities

Issuance of municipal bonds is based on a prospectus. There will be efficiency calculations (how municipalities need capital, which is the cost of obtaining capital through public offering of securities) are market research on whether the offer, considering the financial situation of the issuer, shall be the most favorable time of supply and start running its length, is held for the production team offer prospectus. The first condition of eligibility to access the capital market is to identify the need for local financial resources, which can not be covered by traditional sources, development (realization of investment projects) or to finance local government deficit so as to not affect ensure the normal functioning of local public services. From a financial standpoint, the main eligibility refers to the maximum amount of indebtedness and guarantees that local government should provide. Launch the program takes place accompanied by the publication of the prospectus generally a brief analysis of the capital market. Also, the launch operations to include any advertising campaigns through press, radio, television or specialized agencies in activities. Placement of municipal bonds involves placing and carrying out operations such as placement and role of the financial establishment process. LPA send the right conferred by municipal bonds in exchange for cash representing the value thereof. Placing municipal bonds is through public offer made by the issuer directly or through an intermediary, a financial investment services company in the name of the bidder (but must be approved by the National Securities Commission).

But the current context could improve the image and generate greater market liquidity. The main driver for developing municipal bond market has been growing financing needs of local authorities for projects they wanted to launch. But the current financial crisis that expensive and limited access to bank credit, could give additional support development of this type of fixed income instruments, with all public distrust. In 2001, when the bond market is beginning, few were those interested in municipal bonds. In time, however, the market has developed due to the growing needs of municipal financing, and the local banks' interest toward this financial product. The process of persuasion at one municipality to make a bond issue can take up to several months, because discussions not only with the mayor bears or staff of professional, but also with representatives of all City Council who are not familiar with the functioning of capital markets in general or the bond market in particular. For many local governments annual ceiling of 30% of revenues, imposed as a threshold level of debt is quite low and can be an impediment to rapid development. Administrative-territorial units are not performing management or for those whose budgets have a high rigidity of expenditure, this limit may be quite high and its observance is not even 100% protection from risk.

Local public debt management is to establish a debt management strategy of local public administration authority, able to mobilize the necessary funding amounts, to achieve the objectives established risk and cost and other objectives set by them, such as development and maintain an efficient government securities market.

In the context of national economic policies and local, local authorities should ensure that both the level and growth of local public debt is sustainable, and debt service can be provided in various situations while respecting the objectives of cost and risk. It should also maintain local public sector debt on a sustainable path and implementation of a credible strategy to reduce debt levels, if it is excessive.

Local public debt should be structured in terms of appropriate interest rates, maturities and borrow the currency. A weak structure of these elements may be contributing factor to the initiation or propagation of economic crisis. The recent crisis highlighted the need to limit exposure to liquidity risk and other risks that are as local economies become vulnerable to external shocks. Along with sound management practices of the debt claimed, with many crises occurring on debt markets, the need for a powerful and robust capital markets. Although public debt management policy was not the main cause local economic crises, it is evident that inadequate maturity structure, interest rates and currency component of the debt portfolio contributed to the aggravation of these phenomena, are more vulnerable to economic shocks and financial.

In order to assess risks, should be done on a regular tests of local public debt portfolio based on economic and financial shocks to which state and local government is likely to expose themselves. This evaluation is often done through financial models that are more complex scenarios and simulations based on statistical techniques. In developing these assessments must take into account the risk that the administration can not refinance the debt and be forced to default, which involve costs to exceed budget. Be taken into account the interactions between the state and the financial situation of the financial sector and non-financial hard times to ensure that debt management activities do not increase risks to the private sector.

The key difference between these two types of action is the frequency with which those in charge of debt management in the financial markets operate regularly to achieve specific milestones. Using these items may have limited applicability in countries with limited debt market, as lack of liquidity does not allow them to launch regular broadcasts with desired characteristics.

For governments that frequently adjust their debt stock, strategic benchmarks can be effective instruments of debt management, because they represent the portfolio corresponding to the wishes of the administration costs and the expected risks. As such, they can help guide management options for portfolio management and risk debt, requiring, for example, that decisions to close the actual reference portfolio, keeping the overall risk within acceptable limits. Benchmarks should be clearly defined and consistent with the objectives of debt management.

2. FINANCING OF PUBLIC PROJECTS IN DOMESTIC AND FOREIGN LOANS

State loans are general obligations of the domestic financial market contracts and / or international by state or local government, as borrower, obtain funds from a financial or legal person credit and agrees to repay, with interest and other costs in a specified period.

Loans directly employed by central government and local authorities are contracted based on: government securities (denominated in foreign currency, materialized or dematerialized shaped, with interest or discount that placed both domestic and market external) issued by MFP and local governments (directly or through agents or specialized institutions) and placed on domestic or foreign. This category includes treasury bonds, municipal bonds to finance the budget deficit, bonds issued under special laws, agreements concluded with the National Bank of Romania, as well as specialized institutions have the status of agent of the state; agreements with governments other countries and international financial institutions. Finance Ministry and local authorities (local councils, county and the General Council of Bucharest) can employ the existing availability of loans and the Treasury General Account, to cover temporary cash gaps due to the gap between revenues and expenditures of state budget, local budgets respectively.

Loans guaranteed by state and local public administration authorities are contracted by companies, public utilities companies / national companies, administrative units and local public institutions, to finance investment projects, based on letters of guarantee issued by the Ministry Finance, on behalf and on behalf of the state or the local public administration authorities. Letters of guarantee is the document expressing the commitment on behalf and in behalf of the state by the Government through the Ministry of Finance or by local authorities, as guarantors, to credit institutions to pay outstanding obligations at maturity of guaranteed. In practice there are situations where a state loan with another loan changing state of the Ministry of Finance, in certain terms the conversion, with the Government, which shall submit a memorandum. Conversion is a change in a loan transaction state employee under the law, in certain terms, with another state loan with a lower interest rate and / or a longer period of repayment in order to reduce loan costs initial state, to facilitate service government debt, the repayment term by increasing rates of capital and payment of interest and other costs. Local guarantee is the commitment by a local government authority to the lending institution to pay it a certain amount for a default payment by businesses and public services in its subordination to internal loans guaranteed by that authority. Any guarantee by revenues become effective and apply since the granting of the guarantee. Income that is under warranty and are collected from the local budget are subject to the conditions that guarantee agreement, which applies to override any third party claims to the local public authority, whether such third parties know or do not know guarantee agreement.

To cover the financial risks arising from the guarantee by local authorities of internal loans contracted by companies and public services of local subordination, the fund is established local security risk to domestic borrowing in the local budget. It shall be kept in separate accounts opened with territorial units of the state treasury. Risk level is determined by the commission the principal loan and approved by the local, county and the Bucharest General Council as appropriate. This fee is applied on the value of the guaranteed loan. Risk fund amounts in the end be reconciled with the local budget to the amounts received from this budget and the difference is carried over to next year with the same destination.

External loans contracted by local government authorities is made based only on their approval by two thirds at least of the members of local authorities and only with the approval of these loans committee, whose composition and operation shall be approved by Government decision on medium and long form loan agreements from other governments or international financial institutions. For such loans the government guarantee is not required, but is required prior notification of the Ministry of Finance. To cover the financial risks arising from guarantees for loans to local authorities contracted by businesses and public services of local subordination, risk fund is established for external loan guarantees in the local budget. Repayment of external loans contracted by local authorities and interest payments and fees due shall be made of resources, converted into the currency of contract, available to them and provided the local budget, excluding transfers from the state budget with special destination.

Foreign loans guaranteed by local government authorities only with the authorization committee consisting of representatives of local authorities, government and National Bank of Romania. It is also necessary two-thirds vote of the members of local councils, county and General Council of Bucharest. Repayment of loans guaranteed by local authorities and interest payments and other costs associated with these loans are made by each guarantor to the terms and conditions contained in the Loan Agreement and the Convention.

A disadvantage of this form of attracting financial resources for local projects is certain political influences that may hinder private sector. Entering the financial market sector essentially governed by the rules of free market competition and capital cautious principle applied literally to any credit institution requires credit applicants meeting certain conditions and requirements, called generic eligibility criteria. Rating Romanian local authorities at the level of municipalities, cities, communes, makes many of them can not even dream of access to these sources.

The principles on which local authorities will govern the post-accession period are: efficiency, economy, efficiency and quantify the results, while the main directions are considering strengthening local autonomy, decentralization of administrative and fiscal decentralization. Efficiency of public spending depends fundamentally on the ability to formulate and implement government policies impact their local communities. The current framework of business investment in local public sector (to achieve regional development) is characterized by constraints within action, sometimes without continuity and well-defined purposes. Implementation of local development policies requires the existence, in the local budget, the sources of revenues (mostly poor) to ensure viability and continuity of the projects proposed by local authorities.

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