INTERIM FINANCING **6878**

(New 5/98)

The purpose of interim financing is to meet project cash flow needs for expenses incurred after project authorization, but prior to the issuance of long-term debt instruments. Unless statute provides otherwise, projects eligible for state-funded interim financing are those financed through:

1. GO bonds;
2. PWB lease-revenue bonds; and
3. Lease-revenue bonds issued by a joint powers authority, of which the state is a member, with state construction authority.

Most GO bond programs are eligible for commercial paper interim financing.

Interim financing for lease-revenue bonds may be necessary for preconstruction costs (preliminary plans, working drawings) as well as a portion or all of construction costs. Lease-revenue bonds are typically sold after the construction bids are received and awarded and, for small projects, after several projects are grouped together to make a sizable sale. When long-term bonds are sold, proceeds are used in part to repay interim financing costs.

General Fund loans: Section 15849.1 of the Government Code authorizes loans from the General Fund for PWB lease-revenue projects (within the Public Building Construction program) to be repaid from the proceeds received from the sale of bonds. Government Code Section 15819.13 includes similar provisions for PWB prison facilities construction. Government Code Sections 15820.12, 15820.19, 15820.41 and 15820.61 provide General Fund loan authority for PWB higher education projects; however the Legislature must specifically approve such loans.

Pooled Money Investment Account loans: Government Code Section 16470 et seq. establish the Pooled Money Investment Board (PMIB) and Pooled Money Investment Account (PMIA) for investment of surplus state and local government funds. Government Code Section 16312 permits PMIB to make loans to projects otherwise eligible for interim financing through a General Fund loan. PMIB may also make loans to any special fund for a project authorized to be debt-financed.

PMIB meets monthly (usually the third Wednesday of each month).

1. Loans are made at taxable rates set by PMIB in accordance with policies set forth in Government Code Section 16314.
2. Requests for interim financing for GO projects must first be approved by the appropriate bond finance committee. PWB projects must first be approved by PWB. Requests for state-membership JPA projects must be approved by resolution of the JPA's governing board.
3. For preconstruction costs of lease-revenue bond programs, PMIB requires substantial assurance that the loan will be repaid. This is generally met for PWB lease-revenue projects with the following Budget Act language:

   In the event the bonds authorized for the project are not sold, the Department of ___________ shall commit a sufficient portion of its support appropriation provided for in this act to repay any loans for interim financing. It is the intent of the legislature that this commitment shall be included in future Budget Acts until outstanding loans for interim financing are repaid either through the sale of bonds or from an appropriation.
4. PMIA loans for interim financing generally do not exceed 12 months in length. If a project requires a longer loan, it must apply to PMIB annually for loan renewal.
5. A PMIB loan application form is available from STO.

Commercial paper program: Commercial paper notes are short-term negotiable instruments which may be used to meet a project's interim financing needs. Government Code 16731.6 authorizes the use of short-term negotiable instruments for interim financing needs for general obligation projects; Government Code Section 15809 does the same for PWB projects. Commercial paper has maturities ranging from 1 to 270 days. Borrowing is at variable, tax-exempt rates. ("All-in" financing costs historically are lower than PMIA loans.) Principal and interest are paid at maturity or refinanced by issuing new commercial paper notes.