CAPITALIZED ASSETS FINANCING 6870

(New 5/1998)

This portion of the Capitalized Assets chapter addresses the methods used by most state departments for long-term financing of the ownership and/or use of infrastructure. In addition, this chapter addresses interim (short-term) financing needs for projects. ***Please note that nothing in this chapter is intended to commit either the STO or PWB to policies or practices***.

Capitalized assets may be paid by direct appropriation—sometimes called "pay-as-you-go"—or financed over multiple years. Long-term financing follows one of five paths:

1. If the client department has project authority with a **GO bond** appropriation, the state issues GO bonds to finance the project. Debt service is paid automatically by the General Fund without the need for an annual appropriation.

2. If the client department has project authority with a lease-revenue appropriation, **lease-revenue bonds** are issued by PWB or—in some cases—by a state-membership joint powers authority (JPA). A separate lease rental payment item is included in the annual Budget Act under the client department's organization code.

3. When the client department has obtained authority to *acquire* real assets through leasing, it may execute a tax-exempt ***financing lease*** using an installment sale agreement or lease-purchase agreement. Payments may be budgeted as a separate appropriation or in some cases in the rent line-item of the department's support appropriation.

4. If the client department has only ***operating lease*** authority, a vendor or other third party provides the facility and *may* finance it on a taxable basis using the client department's lease as the security for a debt offering. Payments will normally be budgeted in the rent or contract line of the department's support appropriation.

5. For departments with projects which generate their own enterprise fund revenue streams, projects may be financed with tax-exempt **enterprise revenue bonds** (e.g., the Department of Transportation's toll bridges and the Department of Water Resources' State Water Project).

Because most departments do not use enterprise revenue bonds, this type of financing is not discussed in detail in this chapter. Debt instruments other than those referenced in the preceding text may be used, but the principles will be similar. Acronyms and terminology are defined and indexed in Section 6899.

For an understanding of other forms of debt financing, refer to the California Debt and Investment Advisory Commission's *Debt Issuance Primer.* The Commission also offers a course entitled *Fundamentals of Debt Financing*.