FY 2019 Recommended Budget

Budget Question

Board Question #: 36

BUDGET QUESTION: Please explain what the Other Bonds (lease revenue) in FY 2021 for $3.6 million is on page 120 of the summarized version of the budget document.

RESPONSE: When cash is not available to finance capital projects, General Obligation (GO) bonds are the least costly form of borrowing. GO bonds may be issued only when we have voter authority from a referendum to do so. There are future major maintenance projects planned for the Holbert Building and Marshall Center for which we do not have referendum authority to issue GO bonds and for which we do not expect to have cash to fund. If we intend to keep these buildings, they must be maintained and these projects will need to occur.

“Lease revenue” bonds are another form of project financing that is available to us. We do not need referendum authority to issue these bonds through the Economic Development Authority (EDA). As with any bonds issued, we would have to have approval of the Board of Supervisors to issue such debt. The bonds are called “lease revenue” because the bonds are issued through the EDA, the EDA then “leases” the County the purchased items/projects in exchange for payments (“revenue”) with which the EDA pays the principal and interest payment (debt service) due. Once the bonds mature and are paid off, the “lease” is satisfied and the County is the sole owner of the resulting project.

We have used “lease revenue” bonds in the past on numerous occasions for various equipment purchases and for purchase of the Merchants Square Building. Finance staff’s recommendation would certainly be to use GO bonds when referendum authority exists, but when it does not, and when a project needs to occur, “lease revenue” bonds are a possible source of project funding. We can expect interest rates on “lease revenue” bonds to exceed GO bonds by approximately 0.25%.