

Supplemental Information for FY 2010-11 Capital Budget Training/Capital Budget Manual

Categories of Capital Finance: Pay As You Go and Pay As You Use

- Pay As You Go financing is also known as “cash” financing. Many departments fund certain types of capital projects with funds in reserves or with funds that are projected to be available based on a typical financial pro forma. For example, at Solid Waste Management, capital repairs to disposal facilities may be made out of current year disposal revenues projected to be available in excess of disposal revenues required for operations and to maintain restricted reserves. For General Fund supported departments, this type of cash on hand financing is provided through the Capital Outlay Reserve. Grants may also be considered Pay As You Go type financing, but funds are usually provided on a reimbursement basis and may require a local match. Donations may also be considered like “cash” if the funds are immediately available.
- Pay As You Use financing is commonly provided through a bond issuance or loan borrowing and repaid over the life of the asset. The County uses the primary municipal bond market and sells bonds (a debt instrument) through the underwriting process. At closing, the proceeds of the bond sale are immediately made available to the County. Alternatively, the County might borrow funds through an investment pool or from a private lender such as a commercial bank depending on the project type and size of financing. Generally, projects that require amounts of funding well in excess of available cash are financed in this way. Other types of Pay As You Use financing include leases and certain types of equity contracts.

The Capital Budget Module requires one to load expenditures by milestone and by revenue source. This is an easy process if only dealing with one type of revenue, but what if a project is funded from several different revenue sources and of both types - Pay As You Go and Pay As You Use?

- If bonds have been issued or if a loan has been closed, **ALWAYS** use (spend) this type of financing first. You cannot program bond or loan proceeds for expenditure if the financing has not been completed. All proceeds allocated to a capital project from a bond or loan financing are ONLY programmed as revenue the year in which the bond or loan proceeds are received.
- Cash on hand funding should **ALWAYS** be used (spent) last unless there is a time restriction associated with it. For example, many grants are made for a specific time period and if not used within that period, will expire (implying loss of funding). Also, one may have to program local cash with grant funds at the same time if there is a match requirement (say, for example, a dollar for dollar match).

Expenditure Milestones

The level of detail being required this year for the capital budget/capital improvement plan programming expenditure milestones is greater than in years past. Although budget documents are typically not prepared at this more detailed level, the information is needed in CIIS to perform necessary project management functions. Departmental budget staff is encouraged to work with the capital staff within the department to develop these milestones. If additional support is needed, departments may contact OCI for assistance. Budget related questions are to be referred to your assigned OSBM analyst. Keep in mind that you are required to adequately define your project by using all pre-approved milestones that are applicable to your project. Detail milestone data will be summarized and collapsed in budget reports for top management and elected officials and for other budget purposes including publication of the proposed budget books.