

DEBT MANAGEMENT

The County uses several financing instruments to fund its capital needs. Each method of leveraging has specific and secure sources identified and used for the debts repayment.

The County employs the *early recognition option* for payments of principal and interest when due early in the subsequent year for financial reporting and budget purposes to ensure resources are both available and measurable when payments are due.

FINANCING INSTRUMENTS

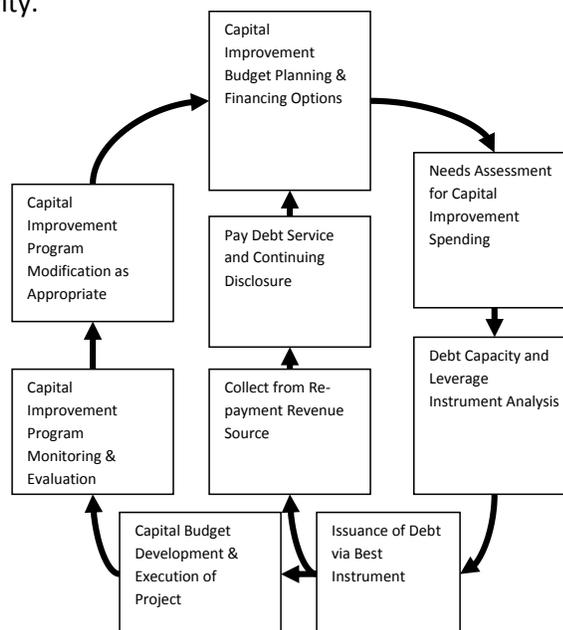
There are numerous financing instruments available to counties in the State of Arizona, including:

- General Obligation Bonds
- Revenue Bonds
- Improvement Bonds
- Special Assessment Bonds & Rural Development Loans
- Community Facility Districts
- Certificates of Participation
- Lease Purchase
- Capital and Operating Leases
- Pay-as-you-go and
- Inter-fund Borrowing

A general explanation of all these instruments and details on how the County utilizes them is included in this section. Yuma County’s current bond rating from Moody’s Investor Services is A1.

FINANCING A CAPITAL PROJECT

The flow chart below illustrates the ground work to initiate a routine and comprehensive analysis of the County’s debt capacity to provide assurance that the amount of debt issued is affordable, cost-effective and promotes an appropriate balance between the County’s capital needs and its ability to pay for them today and through the debts maturity.





DEBT SERVICE

DEBT LIMITATION

Bonded indebtedness of local municipalities is subject to a two-tiered constitutional debt limit. (Arizona Constitution, Article 9, Section 8; June 2008)

Under Arizona law, counties, cities, towns, school districts and other municipalities **may** have the ability to issue general obligation bonds up to 6% of the jurisdiction's net secondary assessed valuation without voter approval. Voter approval is definitely required before issuing over the 6%. With voter approval, counties and school districts may issue general obligation bonds up to 15% of the jurisdiction's net.

Special Taxing Districts formed under Arizona Revised Statutes Title 48, have the same and some have further restrictions than set forth in the Arizona Constitution.

The *Library* (ARS 48-3904) and *Jail* Districts both are consistent with the County's debt limitation of 6%. The *Flood Control* (ARS 48-3619) and *Health* (ARS 48-2217) Districts have a lower debt limitation of 5% of the jurisdictions net secondary assessed valuation.

Note: The Adopted Budget was prepared using the limited primary assessed values listed in the following tables. Subsequent to budget adoption, the need for a small adjustment was identified. However, that adjustment is not reflected in these pages.

The tables to the right illustrate the **County's** compliance with the constitutional debt limitation. The County has \$67 million or 100% of unused 6% borrowing capacity that **may** not require voter approval prior to issuing debt; and \$167.4 million or 100% of 15% borrowing capacity available that requires prior voter approval. The County has outstanding \$6.6 million in bonds using pledged revenue from sales taxes.

Yuma County	
Constitutional General Obligation Bonding Capacity	
Without Prior Voter Approval	
2016 Limited Primary Assessed Valuation	\$1,116,022,260
6% Constitutional Limitation	66,961,336
Less: General Obligation Bonded Debt Outstanding	-
Plus: GO Fund Balance Restricted for Repayment	-
Unused 6% Limitation Borrowing Capacity	\$66,961,336

Yuma County	
Constitutional General Obligation Bonding Capacity	
Subject to Voter Approval	
2016 Limited Primary Assessed Valuation	\$1,116,022,260
15% Constitutional Limitation	167,403,339
Less: General Obligation Bonded Debt Outstanding	-
Plus: GO Fund Balance Restricted for Repayment	-
Unused 15% Limitation Borrowing Capacity	\$167,403,339

The tables to the right illustrate the **Library District's** compliance with the constitutional debt limitation. The Library District has \$28.5 million or 42.5% of unused 6% borrowing capacity that **may** not require voter approval prior to issuing debt; and \$129 million or 77.1% of the 15% borrowing capacity available that definitely requires prior voter approval.

Library District	
Constitutional General Obligation Bonding Capacity	
Without Prior Voter Approval	
2016 Limited Primary Assessed Valuation	\$1,116,022,260
6% Constitutional Limitation	66,961,336
Less: General Obligation Bonded Debt Outstanding	40,465,000
Plus: GO Fund Balance Restricted for Repayment	2,020,000
Unused 6% Limitation Borrowing Capacity	\$28,516,336

Library District	
Constitutional General Obligation Bonding Capacity	
Subject to Voter Approval	
2016 Limited Primary Assessed Valuation	\$1,116,022,260
15% Constitutional Limitation	167,403,339
Less: General Obligation Bonded Debt Outstanding	40,465,000
Plus: GO Fund Balance Restricted for Repayment	2,020,000
Unused 15% Limitation Borrowing Capacity	\$128,958,339



DEBT SERVICE

DEBT LIMITATION (CONCLUDED)

The tables to the right illustrate the **Jail District's** compliance with the constitutional debt limitation. The Jail District has \$67 million or 100% of unused 6% borrowing capacity that **may** not require voter approval prior to issuing debt; and \$167.4 million or 100% of 15% borrowing capacity available that definitely requires prior voter approval.

Voters established the Jail District in 1995 and reaffirmed in 2011 its support by a transaction privilege tax (TPT), rather than a property tax. For this reason, the Jail District has only issued revenue bonds secured and supported by the TPT tax, rather than property tax.

The tables to the right illustrate the **Flood Control District's** compliance with the constitutional debt limitation. The Flood Control District has \$45.4 million or 100% of unused 5% borrowing capacity that **may** not require voter approval prior to issuing debt; and \$136.1 million or 100% of 15% borrowing capacity available that requires prior voter approval.

The following tables illustrate the **Health District's** compliance with the constitutional debt limitation. The Health District has \$55.8 million or 100% of unused 5% borrowing capacity that **may** not require voter approval prior to issuing debt; and \$167.4 million or 100% of 15% borrowing capacity available that requires prior voter approval.

The Health District was approved by the Board of Supervisors in 2005 to be supported by a transaction privilege (sales) tax, rather than a property tax. For that reason, the Health District generally will issue revenue bonds secured and supported by the sales tax, rather than property taxing authority.

Jail District	
Constitutional General Obligation Bonding Capacity	
Without Prior Voter Approval	
2016 Limited Primary Assessed Valuation	\$1,116,022,260
6% Constitutional Limitation	66,961,336
Less: General Obligation Bonded Debt Outstanding	-
Plus: GO Fund Balance Restricted for Repayment	-
Unused 6% Limitation Borrowing Capacity	\$66,961,336

Jail District	
Constitutional General Obligation Bonding Capacity	
Subject to Voter Approval	
2016 Limited Primary Assessed Valuation	\$1,116,022,260
15% Constitutional Limitation	167,403,339
Less: General Obligation Bonded Debt Outstanding	-
Plus: GO Fund Balance Restricted for Repayment	-
Unused 15% Limitation Borrowing Capacity	\$167,403,339

Flood District	
Constitutional General Obligation Bonding Capacity	
Without Prior Voter Approval	
2016 Limited Primary Assessed Valuation	\$907,457,627
5% Constitutional Limitation	45,372,881
Less: General Obligation Bonded Debt Outstanding	-
Plus: GO Fund Balance Restricted for Repayment	-
Unused 5% Limitation Borrowing Capacity	\$45,372,881

Flood District	
Constitutional General Obligation Bonding Capacity	
Subject to Voter Approval	
2016 Limited Primary Assessed Valuation	\$907,457,627
15% Constitutional Limitation	136,118,644
Less: General Obligation Bonded Debt Outstanding	-
Plus: GO Fund Balance Restricted for Repayment	-
Unused 15% Limitation Borrowing Capacity	\$136,118,644

Health District	
Constitutional General Obligation Bonding Capacity	
Without Prior Voter Approval	
2016 Limited Primary Assessed Valuation	\$1,116,022,260
5% Constitutional Limitation	55,801,113
Less: General Obligation Bonded Debt Outstanding	-
Plus: GO Fund Balance Restricted for Repayment	-
Unused 5% Limitation Borrowing Capacity	\$55,801,113

Health District	
Constitutional General Obligation Bonding Capacity	
Subject to Voter Approval	
2016 Limited Primary Assessed Valuation	\$1,116,022,260
15% Constitutional Limitation	167,403,339
Less: General Obligation Bonded Debt Outstanding	-
Plus: GO Fund Balance Restricted for Repayment	-
Unused 15% Limitation Borrowing Capacity	\$167,403,339



DEBT SERVICE

DEBT BURDEN

The General Obligation Bonded Debt Ratios are measurements of the relationship between the debt of the county supported by its property tax base. The tax base is represented by the net secondary assessed valuation (statutory formula applied by the County Assessor) and the full cash value (the assessed value adjusted to reflect market value). Net debt is also compared to population to determine net debt per capita.

Yuma County			
Net Direct General Obligation Bonded Debt Ratios			
	Limited Primary	Full	
	Per Assessed	Cash	
	Capita Valuation	Value	
	Debt	\$10.1	
	214,991	Billion	
Net Direct GO Bonded			
Debt (Due) Outstanding at			
June 30, 2016	\$ 0.00	0.00%	0.00%

Jail District			
Net Direct General Obligation Bonded Debt Ratios			
	Limited Primary	Full	
	Per Assessed	Cash	
	Capita Valuation	Value	
	Debt	\$10.1	
	214,991	Billion	
Net Direct GO Bonded			
Debt (Due) Outstanding at			
June 30, 2016	\$ 0.00	0.00%	0.00%

Library District			
Net Direct General Obligation Bonded Debt Ratios			
	Limited Primary	Full	
	Per Assessed	Cash	
	Capita Valuation	Value	
	Debt	\$10.1	
	214,991	Billion	
Net Direct GO Bonded			
Debt (Due) Outstanding at			
June 30, 2016	\$ 188.22	3.63%	0.40%

Flood Control District			
Net Direct General Obligation Bonded Debt Ratios			
	Limited Primary	Full	
	Per Assessed	Cash	
	Capita Valuation	Value	
	Debt	\$8.8	
	214,991	Billion	
Net Direct GO Bonded			
Debt (Due) Outstanding at			
June 30, 2016	\$ 0.00	0.00%	0.00%

Health District			
Net Direct General Obligation Bonded Debt Ratios			
	Limited Primary	Full	
	Per Assessed	Cash	
	Capita Valuation	Value	
	Debt	\$10.1	
	214,991	Billion	
Net Direct GO Bonded			
Debt (Due) Outstanding at			
June 30, 2016	\$ 0.00	0.00%	0.00%



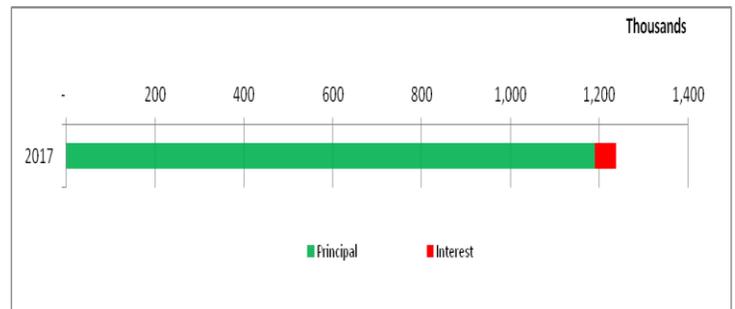
DEBT SERVICE

GENERAL OBLIGATION BONDS

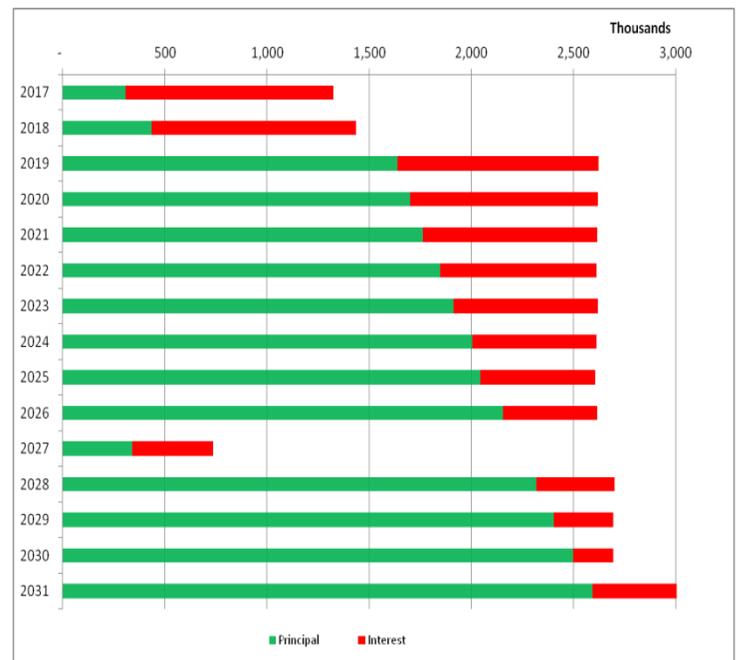
General Obligation (GO) Bonds are secured by the issuer’s general taxing power. As referenced in ARS, Title 35, Chapter 3, the bond security of GO bonds is the taxing power of the state or local government. The County is authorized to levy property taxes or other unrestricted revenue streams, such as sales taxes to pay the general obligation bond payments (principal & interest). The interest rates on GO bonds are generally lower than other public securities due to this security.

The voters within the Yuma County Library District on November 8, 2005 authorized the issuance of general obligation bonds up to the amount of \$53,765,000 on behalf of the Yuma County Library District for the construction of new library facilities. Bonds were issued in 2006 and 2007 with maturity dates in 2035. In 2015 the district did an economically feasible refunding of a portion of those bonds in the amount of \$26.3M. In May of 2016 the District did a second refunding of \$11,285,000 of all remaining bonds from the original 2006 and 2007 issues except for the 2007 issue due in 2017. Using a combination of available cash and issuing bonds and making the payments for the bonds due on July 1, 2016, the total outstanding bond principal has been reduced to \$38,455,000. These new bonds have a maturity date of 2035.

Yuma County Library District General Obligations - Series 2007 As of June 30, 2016				
Fiscal Year	Interest Rate	Principal	Interest	Total
2017	4.00%	1,190,000	47,600	1,237,600
		1,190,000	47,600	1,237,600



Yuma County Library District General Obligations - Series 2015 As of June 30, 2016				
Fiscal Year	Interest Rate	Principal	Interest	Total
2017	4.00%	310,000	1,014,206	1,324,206
2018	4.00%	435,000	1,001,806	1,436,806
2019	4.00%	1,640,000	984,405	2,624,405
2020	4.00%	1,700,000	918,806	2,618,806
2021	5.00%	1,765,000	850,806	2,615,806
2022-26	2.25% - 5.0%	9,970,000	3,100,556	13,070,556
2027-31	3.63%-4%	10,160,000	2,204,759	12,364,759
		25,980,000	10,075,345	36,055,345

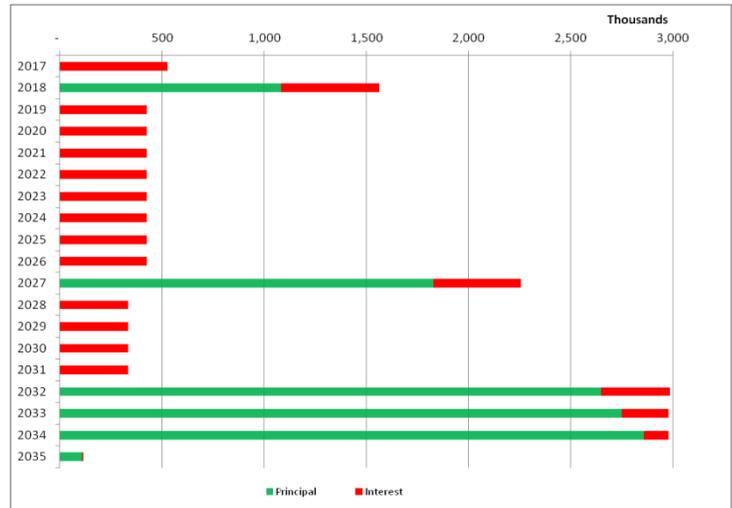




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GENERAL OBLIGATION BONDS-CONTINUED

Yuma County Library District General Obligations - Series 2016 As of June 30, 2016				
Fiscal Year	Interest Rate	Principal	Interest	Total
2017	-	-	528,605	528,605
2018	-	1,085,000	480,550	1,565,550
2019	-	-	426,300	426,300
2020	-	-	426,300	426,300
2021	-	-	426,300	426,300
2022-26	-	-	2,131,500	2,131,500
2027-31	-	1,830,000	1,765,500	3,595,500
2032-35	-	8,370,000	686,800	9,056,800
		11,285,000	6,871,855	18,156,855



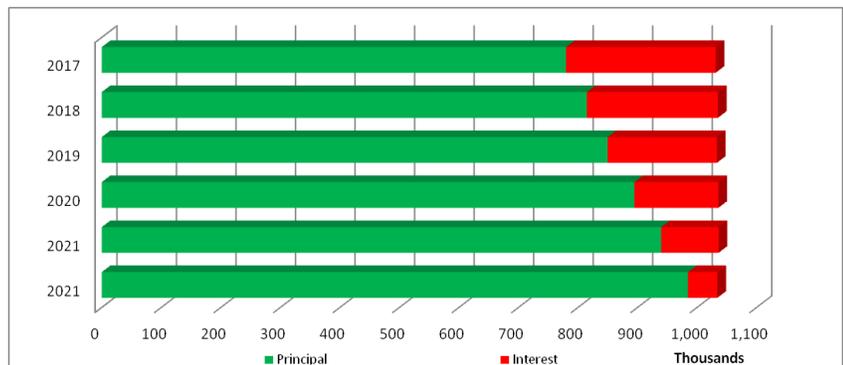
REVENUE BONDS

Revenue bonds are long-term debt instruments that are retired by specific dedicated revenues. Revenue bonds are designed to be self-supporting through user fees or other special earmarked revenues. The general taxing powers of the jurisdiction are not pledged. The debt created through the issuance of revenue bonds is to be repaid by the earnings from the operations of a revenue producing enterprise, from special taxes, or from contract leases or rental agreements. County revenue bonds do not burden the constitutional or statutory debt limitation placed on the County because they are not backed by the full faith and credit of the issuer. The underlying security is the only revenue stream pledged to pay the bond principal and interest.

The Yuma County Jail District Revenue Bonds of 2011 were issued to refund bonds issued in 2007 for the expansion of Yuma County’s correctional facilities. The obligations are secured by the pledge of net revenues from the District’s transaction privilege (sales) tax reauthorized by the County’s voters on May 17, 2011 and due to mature prior to the expiration of the current authorization on December 31, 2035. With this authorization, the district elected to refund the existing 2007 bonds to extend the repayment for a maximum of 10 years.

The bonds were issued on September 15, 2011 in the face amount of \$8,000,000. The bonds mature on or before July 1, 2021. For fiscal year ending June 30, 2016, the projected bonds principal outstanding is \$4,485,000.

Yuma County Jail District Pledged Revenue Bonds - Series 2011 As of June 30, 2016				
Fiscal Year	Interest Rate	Principal	Interest	Total
2017	4.50%	815,000	220,175	1,035,175
2018	5.00%	850,000	183,500	1,033,500
2019	5.00%	895,000	141,000	1,036,000
2020	5.00%	940,000	96,250	1,036,250
2021	5.00%	985,000	49,250	1,034,250
		4,485,000	690,175	5,175,175





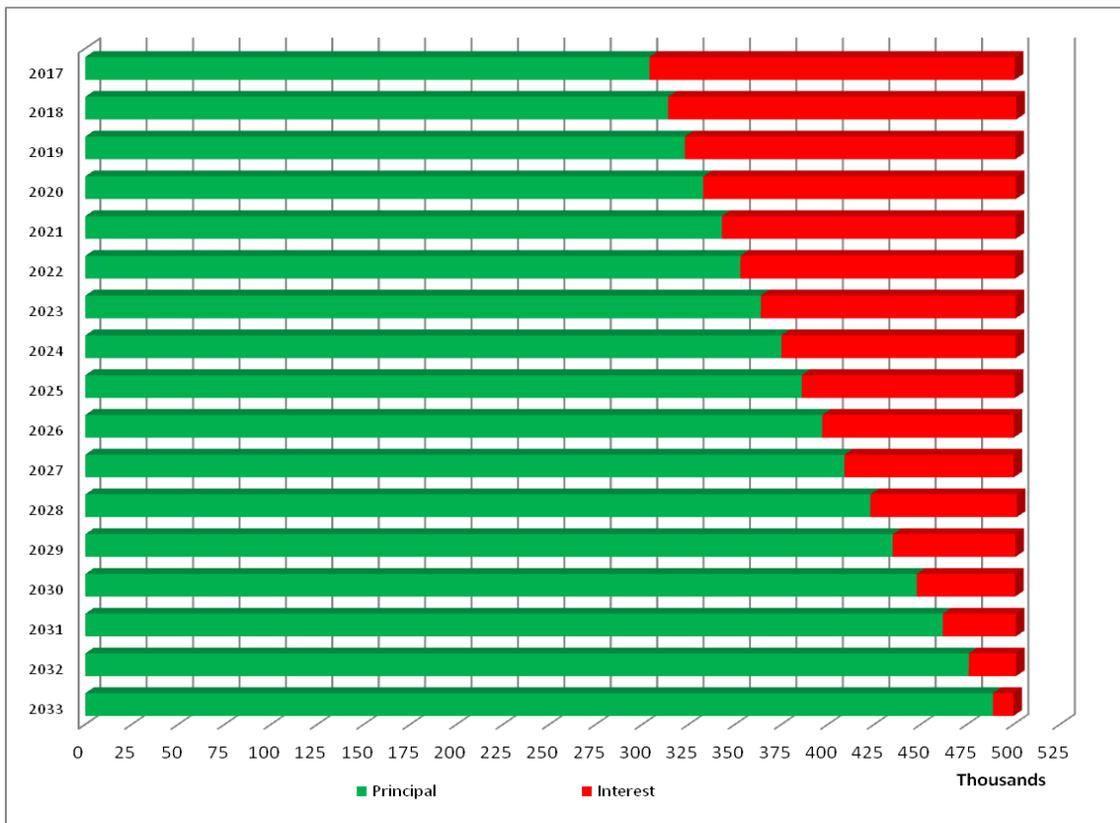
DEBT SERVICE

REVENUE BONDS-CONCLUDED

Yuma County issued Revenue Bonds in June, 2013 for the acquisition and modification of a facility at 197 S Main St, Yuma, AZ for use by County offices and the refunding of the bonds issued to expand Yuma County's East County facility, in Wellton, AZ. The obligations are secured by the pledge of net revenues from the County's transaction privilege (sales) tax.

The bond was issued on June 25, 2013 in the face amount of \$7,500,000. The bond matures on or before June 15, 2033. For fiscal year ending June 30, 2016, the projected bonds principal outstanding is \$6,634,000. The bond requires bi-annual payments of both principal and interest.

Yuma County Pledged Revenue Bonds - Series 2013 As of June 30, 2016				
Fiscal Year	Interest Rate	Principal	Interest	Total
2017	3.00%	304,000	196,755	500,755
2018	3.00%	314,000	187,560	501,560
2019	3.00%	323,000	178,080	501,080
2020	3.00%	333,000	168,315	501,315
2021	3.00%	343,000	158,250	501,250
2022-26	3.00%	1,875,000	629,385	2,504,385
2027-31	3.00%	2,177,000	328,515	2,505,515
2032-33	3.00%	965,000	36,495	1,001,495
		<u>6,634,000</u>	<u>1,883,355</u>	<u>8,517,355</u>





DEBT SERVICE

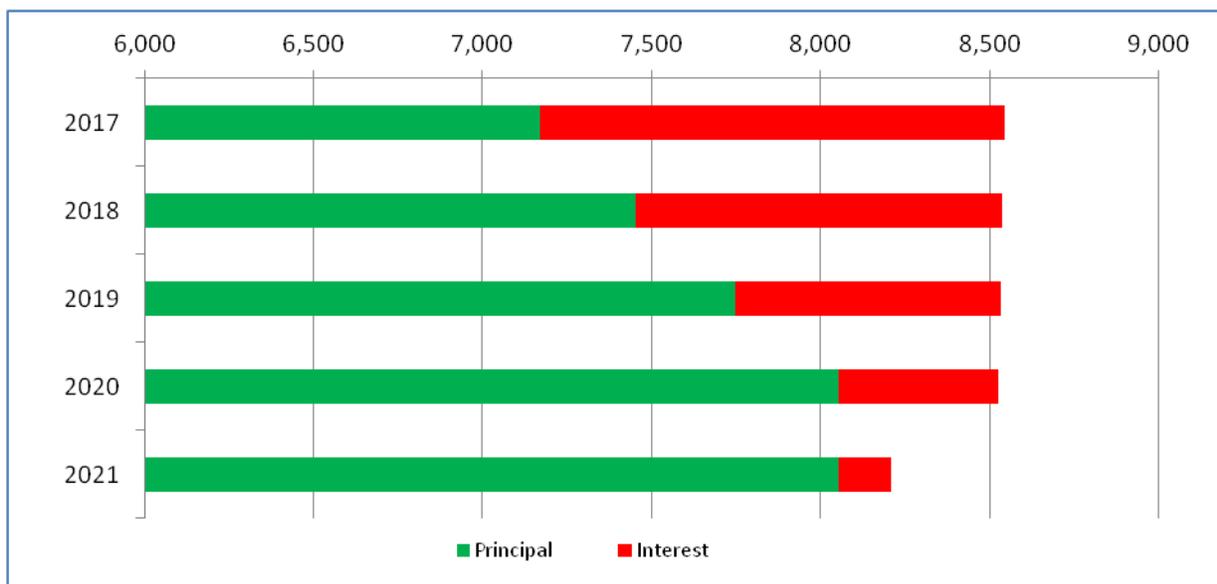
IMPROVEMENT LOANS

Improvement bonds/loans, sometimes referred to as district bonds, fund projects benefiting an isolated group of property owners. They are secured by pledges of revenues from special assessments levied against benefiting property located within the specific district. This financing approach optimizes assurance that those property owners who most directly benefit from the improvements are directly tied to the repayment of the debt. Such a district can only be created by petition of the Board of Supervisors by property owners within the district areas. These bonds/loans are generally callable with interest payable semiannually.

Improvement Districts are formed according to Arizona statute. The Yuma County Board of Supervisors sits as the Board of Directors of the Improvement Districts. These Improvement Districts Capital construction projects are accounted for in the Capital Projects and are considered Blended Component Units for financial reporting purposes. However, each is a separate legal entity. Bonds/Loans have been secured by pledging of revenues from special assessments levied against benefiting property located within the specific district. These bonds/loans are generally callable with interest payable semiannually, and the proceeds used for construction purposes.

In fiscal year ended June 30, 2001, the County entered into a loan agreement with the Water Infrastructure Financing Authority (WIFA) for water system improvements. The WIFA loan had a principal amount of \$261,555 and was fully drawn down as of June 30, 2005. Interest payments are made semi-annually and principal payments are made annually. The amortization schedule has the final payment on January 1, 2021. For fiscal year ending June 30, 2016, the projected WIFA loan principal outstanding will be \$38,474.

El Prado Improvement District No. 97.10 WIFA Loan - Series 2001 As of June 30, 2016				
Fiscal Year	Interest Rate	Principal	Interest	Total
2017	3.94%	7,170	1,373	8,544
2018	3.94%	7,453	1,085	8,538
2019	3.94%	7,747	786	8,532
2020	3.94%	8,052	474	8,526
2021	3.94%	8,052	158	8,210
		38,474	3,876	42,350





DEBT SERVICE

IMPROVEMENT LOANS-CONTINUED

In fiscal year ended June 30, 2012, the County entered into a loan agreement with Water Infrastructure Financing Authority (WIFA) for sewer system improvements. The WIFA loan, although approved in 2012 draws against the loan were not begun until Fiscal Year 2013. The WIFA loan had a scheduled principal amount of \$1,437,915 and has been fully drawn down as of June 30, 2013. Interest payments are made semi-annually on July 1, and January 1 of each year, and principal payments are made annually on January 1. The rate of interest for the loan is 2.50% for the life of the loan.

The amortization schedule has the final payment on January 1, 2036. For fiscal year ending June 30, 2016, the projected WIFA loan principal outstanding will be \$1,258,737.

The amounts owed for the loan are the sole responsibility of the improvement district and semi-annual assessments are made on the members of the district to make the payments.

In fiscal year ended June 30, 2010, the County entered into a loan agreement with the United States Department of Agriculture through its Rural Utility Services (RUS) for the Avenue B and C Colonia sewer system connection improvement project.

The loan had a principal amount of \$2,000,000. Interest payments are made semi-annually, July 1, and January 1 of each year, and principal payments are made annually on January 1 of each year in the amount of \$83,300. The rate of interest for the loan is 2.50% annually.

The amortization schedule has the final payment on January 1, 2035. For fiscal year ending June 30, 2016, the projected loan principal outstanding will be \$1,583,500.

The amounts owed for the loan are the sole responsibility of the improvement district and semi-annual assessments are made on the members of the district to make the payments.

Avenue B & C Colonia

WIFA Loan

As of June 30, 2016

Fiscal Year	Interest Rate	Principal	Interest	Total
2017	2.50%	47,941	34,892	82,833
2018	2.50%	49,270	33,563	82,833
2019	2.50%	50,636	32,197	82,833
2020	2.50%	52,040	30,793	82,833
2021	2.50%	53,482	29,350	82,832
2022-26	2.50%	290,488	123,679	414,167
2027-31	2.50%	333,044	81,122	414,166
2032-36	2.50%	381,835	32,337	414,172
		\$ 1,258,737	\$ 397,933	\$ 1,656,670

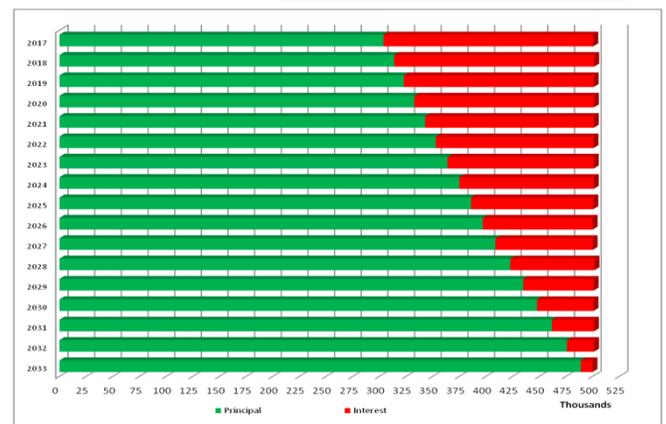


Avenue B & C Colonia

USDA RD Loan

As of June 30, 2016

Fiscal Year	Interest Rate	Principal	Interest	Total
2017	2.50%	83,300	38,546	121,846
2018	2.50%	83,300	36,464	119,764
2019	2.50%	83,300	34,381	117,681
2020	2.50%	83,300	32,299	115,599
2021	2.50%	83,300	30,216	113,516
2022-26	2.50%	416,500	119,844	536,344
2027-31	2.50%	416,500	67,781	484,281
2032-35	2.50%	334,000	16,730	350,730
		\$ 1,583,500	\$ 376,261	\$ 1,959,761





DEBT SERVICE

IMPROVEMENT LOANS-CONCLUDED

In fiscal year ended June 30, 2005, the County entered into a loan agreement with the United States Department of Agriculture through its Rural Utility Services (RUS) for the Gadsden sewer system connection improvement project.

The loan had a principal amount of \$479,610. Interest payments are made semi-annually and principal payments are made annually. The amortization schedule has the final payment on January 1, 2029 after some early prepayments on the principal.

For fiscal year ending June 30, 2016, the projected loan principal outstanding will be \$169,217.

SPECIAL ASSESSMENT BONDS

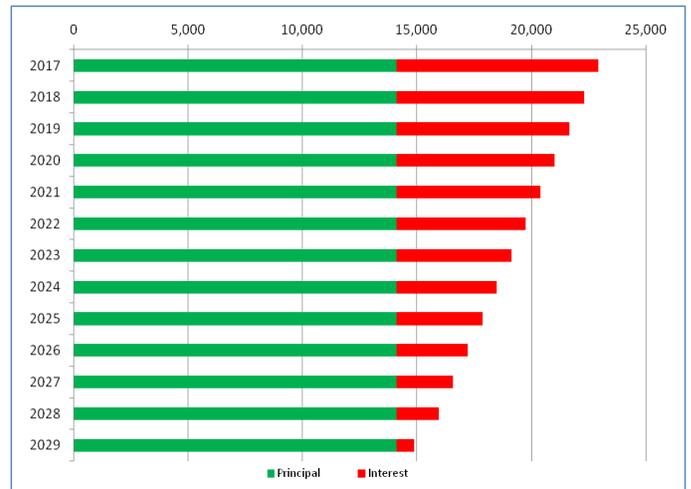
Special Assessment Bonds, sometimes referred to as District Bonds, fund projects that benefit an isolated group of property owners. They are secured by pledges of revenues from special assessments that are levied against benefiting property located within that specific district. This financing approach optimizes assurance that those property owners who most directly benefit from the improvements are directly tied to the repayment of the debt. These bonds are generally callable with interest payable semiannually.

Yuma County currently administers one (1) Improvement District Special Assessment bonds. For fiscal year ending June 30, 2016 the projected aggregate outstanding principal for the El Prado Improvement District will be \$26,040. The Bond is scheduled to be repaid in Fiscal Year 2022. The proceeds of this bond were used for construction purposes.

These Improvement Districts are accounted for in the Capital Projects and are considered Blended Component Units for financial reporting purposes. However, each is a separate legal entity. The Yuma County Board of Supervisors sits as the Board of Directors of the Improvement Districts.

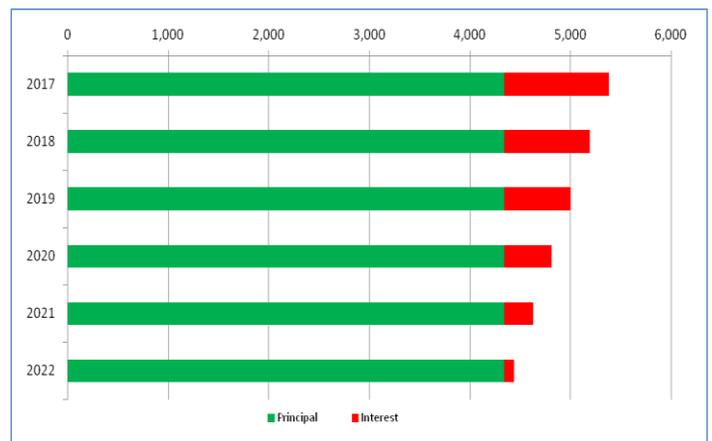
Gadsden Sanitary Sewer Connection Project
RUS Loan - Series 2005
As of June 30, 2016

Fiscal Year	Interest Rate	Principal	Interest	Total
2017	4.5%	14,102	8,831	22,933
2018	4.5%	14,102	8,197	22,298
2019	4.5%	14,102	7,562	21,664
2020	4.5%	14,102	6,927	21,029
2021	4.5%	14,102	6,293	20,394
2025-2026	4.5%	70,508	21,946	92,454
2027-2028	4.5%	28,201	4,336	32,537
		<u>169,217</u>	<u>64,092</u>	<u>233,309</u>



El Prado Improvement District No. 97.10
Special Assessment Bonds - Series 2001
As of June 30, 2016

Fiscal Year	Interest Rate	Principal	Interest	Total
2017	4.5%	4,340	1,044	5,384
2018	4.5%	4,340	854	5,194
2019	4.5%	4,340	665	5,005
2020	4.5%	4,340	475	4,815
2021	4.5%	4,340	285	4,625
2022	4.5%	4,340	95	4,435
		<u>26,040</u>	<u>3,418</u>	<u>29,458</u>





COMMUNITY FACILITIES DISTRICT

Community Facilities Districts are formed under Arizona Revised Statutes chapter 48 as a special taxing district. They are allowed to issue debt to undertake major construction projects. They may issue GO bonds or Special Assessment Bonds. Most of these districts also form an improvement district which allows for dedicated special assessments for operations and maintenance of their facilities.

There are currently no Community Facilities Districts in the County that the County Board of Supervisors sits as the CFD Board of Directors.

CERTIFICATES OF PARTICIPATION

Certificates of Participation (COP) represent proportionate interests in semiannual lease payments. Participation in the lease is sold in the capital markets. This is a lease-purchase type of capital financing. The obligations listed under COP does not represent the legal debt to the County, they are subject to annual appropriation to meet payments for that purpose. Rating agencies typically give COP issues a grade below that of General Obligation Bonds. A.R.S. Title 11, Chapter 2, Article 4, SS11-251, Paragraph 46, provides that repayment for lease-purchase real property and improvements for real property be made within twenty five years. Final repayment longer than 15 years can only be established on unanimous approval by the Board of Supervisors. The County does not currently have any Certificates of Participation outstanding.

LEASE PURCHASE

Lease Purchases are issued to raise money that will be used to acquire or construct a building or project. The building and property usually serve as collateral. The property is leased to the county on a short-term, renewable basis.

Lease Purchase financing provides long-term financing through a lease (with a mandatory purchase provision). This method does not constitute indebtedness under a state or local government's constitutional debt limit and does not require voter approval. In a lease purchase transaction, the asset being financed can include new capital asset needs or assets under existing lease agreements.

CAPITAL AND OPERATING LEASE

Capital and operating leasing is generally used for major equipment. It is similar to rent, but usually has an option to purchase at the end of the lease.

There are two categories of leases: Capital and Operating. To be considered a Capital Lease, any one of the following criteria defines the character of the lease agreement:

- The lease transfers ownership of the property at the end of the lease term.
- The lease has a bargain purchase option.
- The lease term is equal to 75% or more of the estimated life of the property.
- The present value of the minimum lease payments equals 90% or more of the fair value of the property.

If a lease does not meet any of the above criteria, then it is not a Capital lease, but an Operation lease. An operating lease does not require a capitalization of minimum lease payments, nor does the county record an asset or a liability. This lease is classified as rental expenditures.



DEBT SERVICE

PAY-AS-YOU-GO

Pay-as-you-go financing is paying for capital projects with the County's current or one-time in nature revenue base. This method requires an annual appropriation to continue a project that is in progress. This method provides greater flexibility in the budget, since the project funding can be increased or reduced in any given year. It also avoids interest payments on bond issuances and does not create a set debt service schedule that needs to be met. The disadvantage of this method of financing is that only existing residents pay for the improvements that will benefit new residents that relocate after the expenditures have been made. The projects funded this way also could potentially be slowed in the construction process as it awaits year-to-year appropriations.

INTERFUND LOANS

Interfund Borrowing is when one fund of a government loans assets to another fund of the same government. These loans are generally interest free and are repaid within one fiscal year.