

MEMORANDUM

Date: February 23, 2009

To: General Obligation Bond Grant and Loan Program Administrators

From: Geoff Palmertree
Manager, Interim Financing Section, Public Finance Division

Subject: Alternative Non-State Bridge Financing for Grant and Loan Recipients

Several agencies and departments (“grantor state agencies”) have inquired as to whether they may repay some type of bridge financing obtained by grant and loan recipients (“grantees”) once the freeze on disbursements from Pooled Money Investment Board (“PMIB”) loans is over. The Attorney General’s Office has provided the following informal general guidance to the State Treasurer’s Office (“STO”) relating to this question:

Generally, a grantee may continue to incur expenses during the PMIB freeze in order to maintain project schedules and avoid additional costs, and seek payment of those expenses at the end of the freeze, if all of the following apply:

1. The grantee is not a state agency.
2. PMIB approved the loan to the grantor state agency that will be used as interim financing in anticipation of the sale of general obligation bonds for the grant or loan program of the grantor state agency before the freeze took effect.
3. The grantor state agency awarded or allocated the grant or loan and approved the project before the freeze took effect.
4. The grantee incurs the expenses during the freeze period. If the grantee fronts an expense with an alternative source of non-state funds during the freeze period, the grantor state agency may still disburse grant funds after the freeze upon the receipt of an invoice detailing the expense. However, grant funds may not be used to pay interest or other financing costs on any alternative non-state bridge financing obtained by a grantee to front project expenses.
5. The expenses incurred by the grantee during the freeze must meet the requirements of the applicable bond act, any statutes incorporated in the bond act, and the grantor state agency's program guidelines or regulations. For example, some grant programs may have matching, timing or percentage requirements that must still be followed. The freeze on PMIB loans does not eliminate those requirements.

Please be advised that the guidance provided by the Attorney General’s Office to the STO is informal and general in nature. Each program administrator should take care to review program guidelines or regulations, the applicable bond act, and any statutes incorporated into the bond act and consult with counsel to ensure that all program requirements are met.

Please also note that the STO cannot guarantee when funds from PMIB loans will be available for reimbursement of project costs, and should grantees decide to continue projects with an alternative non-state source of bridge financing, they do so at their own risk with respect to the timing of reimbursement from the State.

In addition, loans made to grantees that are Local Governmental Entities (as that term is defined in the Bond Expenditure Transaction Form) which will be used by those grantees to repay bridge financing raise additional tax considerations that may affect the State's issuance of General Obligation Bonds. Each program administrator must track which loans to grantees that are Local Governmental Entities, if any, will be used to repay the grantee's bridge financing, and must report those loans separately on the Bond Expenditure Transaction Form.

I hope this information is helpful. If you have any questions, please contact me at (916) 653-2440 or gpalmtree@treasurer.ca.gov.