

SHORT TERM BORROWING FOR KENTUCKY COUNTIES 2020



This method of borrowing covers traditional short term needs for the purchase of goods and services such as:

- Vehicles
- Road Equipment
- Fire and Emergency Equipment
- Land Acquisition
- Technology
- Planning Services
- General Capital Improvements
- Road Paving

How can you legally finance these projects?

These short term projects are normally financed under the Governmental Leasing Act (KRS 65.940 – 65.956), which is the most flexible and cost effective financing vehicle available to a County/Special District.

It is IMPORTANT that you understand that a governmental lease is not synonymous with a traditional home or car lease.

Under a governmental lease, you are leasing the money as opposed to the asset. The borrower retains title to the property that is being financed.

A governmental lease therefore looks and acts like a note in all ways.

The projects mentioned earlier are eligible for the Governmental Leasing Act, because they are each financings of an identifiable and tangible asset.

What are the attributes of a Governmental Lease?

- It must be for an asset that is tangible and real;
- The term of the governmental lease are negotiable, but is restricted by the usable life of the asset being financed;
- Rates are also individually negotiated, and are subject to term, market conditions and the credit worthiness of the borrower;
- These governmental leases can be structured as either annual appropriation or general obligation; and
- There may be a lien filed on the property being financed.

Borrowing to meet operational shortfalls

Borrowing to meet short term cash flow shortfalls is certainly possible, but not easy. There are legal restrictions that makes this type of borrowing cumbersome and provides very limited options for how the debt will be repaid.

Cash flow borrowing is governed by the Short Term Borrowing Act (KRS 65.7701 – 65.7721).

Under this act the following provisions are required:

Monies may be borrowed by a governmental agency in anticipation of taxes, revenue or both, to be evidenced by a note or notes, and must be repaid from monies appropriated by the governing body of the governmental agency within the fiscal year (KRS 65.7703).

No governmental agency may authorize or issue notes in any one fiscal year where the aggregate would exceed 75% of the taxes, revenues or both being pledged for that fiscal year (KRS 65.7705).

Notes issued for this purpose must be repaid by no later than the last day of the fiscal year in which they are issued (KRS 65.7707)

Notes issued shall be fully secured by a pledge of the taxes, revenues or both that are the source of repayment (KRS 65.7711)

At least 30 days prior to the authorization of notes, an estimate of the revenues and or taxes being pledged as security must be certified by an Officer of the agency (KRS 65.7715)