



## Legislation Text

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### **CITY COUNCIL AGENDA ITEM**

#### **ACTION REQUESTED:**

Adopt the resolution of Official Intent for Reimbursement of Capital Projects

**DEPARTMENT:** Finance Department

**SUBMITTED BY:** Rachel Mayer, Director

#### **BOARD/COMMISSION REVIEW:**

N/A

#### **BACKGROUND:**

The City Council reviewed the proposed 2024-2028 Capital Improvement Program (CIP) as part of the annual budget process. The proposed CIP included \$44,377,000 in capital projects without an identifiable funding source for 2024. The proposed budget contemplated the issuance of general obligation bonds to fund various capital projects, including investment in roads, bridges, technology, and utility infrastructure.

On November 21, 2023, the City Council approved the 2024 Budget and affirmed the plan to issue bonds for these unfunded capital projects as needed.

Since 2018, the City has issued debt on a reimbursement basis. Through the practice of borrowing for capital projects on a reimbursement basis, the City avoids over-borrowing in any one year. By waiting until late in the fiscal year, or even early the following year, staff has an appropriate amount of data to analyze and can project actual spending on capital projects that require debt issuance.

In January, staff seeks approval from the City Council to establish the resolution of Official Intent of Reimbursement to provide authorization to reimburse the City for all capital projects planned for the budget year. Once borrowing needs are defined, staff will work with the City's bond advisor to initiate a bond sale under a timeline that meets the parameters of this reimbursement resolution. An authorizing ordinance is brought to the City Council before any bonds are issued.

#### **DISCUSSION:**

The 2024 Budget approved by City Council authorized staff to spend dollars associated with capital projects starting January 1, 2024. Additionally, as part of the same budget approval, Council tentatively authorized staff to pursue issuing bonds for the payment of all unfunded capital projects, with Council having final approval on any bond sale.

This tight timeframe between budget adoption and the start of the new fiscal year means the City does not have the opportunity to issue bonds before we begin incurring expenditures on capital

projects. To ensure all 2024 unfunded capital projects can be included in any future bond issuance, the City needs to file an Official Intent of Reimbursement Resolution. This resolution does not provide authorization to borrow, it only reserves the ability to fund current projects with future issuance of City debt.

This practice is typical among tax-exempt borrowers and federal guidelines have been developed to govern the practice of *reimbursing* an organization's prior expenditures using bond proceeds. The use of bond proceeds to reimburse prior expenditures is governed by the U.S. Treasury Department's regulation Section 1.150-2. To satisfy the federal regulation the reimbursement needs to meet three requirements:

### 1. Nature of Expenditure

For the City's purposes, the expenditure to be reimbursed must be a capital expense or a cost of issuance.

### 2. Official Intent

#### a. General Rule

- This requirement is satisfied if not later than 60 days after the payment of the original expenditure, the bond issuer declares its intent to reimburse the expenditure with the proceeds of a borrowing.

#### b. Who Must Declare?

- The Bond issuer must declare the intent.

#### c. Requirements

- Source and Form
  - The official intent can be through a resolution of the governing body of the issuer.
- Project Description
  - The official intent must generally describe the projects.
- Maximum Principal Amount
  - The official intent must state the maximum principal amount of bonds expected to be issued for the projects.

#### d. Intent Must Be Reasonable

- The issuer must reasonably expect to reimburse the original expenditures from the proceeds of the borrowing.

### 3. Reimbursement Period

Bond proceeds must be allocated to reimburse the original expenditure within 18 months after the later of the following: the date the original expenditure was paid or the date the project was placed in service.

The City meets requirement number one by only utilizing its general obligation issuance for projects approved through the CIP. Requirement number two would be satisfied through the adoption of this resolution. The resolution meets all items under requirement number two including the project descriptions and the maximum principal amount. If approved the City would be allowed to reimburse itself for all expenditures associated with the approved capital projects through the proceeds of future debt issuance. The summary table below indicates the project types and estimated amounts to be borrowed as part of a 2024 issuance.

<b>Project Listing</b>	<b>Estimated Costs</b>
Stormwater Management	\$650,000
Technology	\$8,000,000
Right-of-Way Improvements	\$8,012,097
Utility Infrastructure	\$27,714,903
<b>Total</b>	<b>\$44,377,000</b>

The attached resolution authorizes reimbursement of up to \$44,377,000 for various capital projects within the 2024 CIP. Those projects include improvements to right-of-way infrastructure, including roads, bridges, and sidewalks, stormwater infrastructure, technology enhancements and utility infrastructure as detailed in Attachment A.

**FISCAL IMPACT:**

This action has no direct fiscal impact as it does not commit the City to issue debt in 2024. The resolution only establishes a process for reimbursing costs if debt is issued.