



Legislation Text

File #: 18-026, Version: 1

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Adopt the Resolution of Official Intent for Reimbursement of Capital Projects

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

The City Council, at the workshops held on October 30, 2017; November 13, 2017; and November 27, 2018, reviewed the proposed Calendar Year 2018-2022 Capital Improvement Program (CIP). The original unfunded project listing totaled \$26.23 million. Through program review and project coordination, staff reduced the total recommendation by \$10.07 million for a total unfunded capital listing of \$16.16 million.

This reduction included project deferrals, project phasing and re-aligning projects based upon updated timelines. The project amendments below, combined with changes to 25 other projects, allowed staff to reduce the overall capital request for 2018. The amendments include:

- Reducing the MIP request from \$12 million to \$10.5 million. The validation study completed in CY2017 recommended an annual program of \$12 million. Staff has made the recommendation to phase in the incremental investment over the next three years.
- Phasing in the Citywide LED streetlight conversion. To upgrade the remaining citywide streetlights to LED was projected to cost \$2.5 million. Based upon staff analysis of potential payback, staff recommends phasing the project over the next five years upgrading lights with the shortest payback period first.
- Deferring NextGen E-911 Services upgrades. This project is expected to cost \$1.9 million and is required to be completed by 2020 by the State of Illinois. Staff recommends deferring the purchase of equipment and installation to 2019 but will begin the planning process in 2018 through the development of a Request for Information (RFI) and will explore opportunities to coordinate with other communities such as the City of Aurora.
- Adjusting timing for the North Aurora Road underpass. The 2018 component of the project was expected to be \$1.2 million. Based upon timing and coordination of the project, staff does not foresee these expenditures to occur in 2018 and therefore is recommending deferring this project phase to 2019.

Over the course of the workshops, the total unfunded component was reduced to \$15.6 million, with

approximately \$8.4 million of capital expenditures to be funded through the City's home rule sales tax. At the December 5, 2017 City Council meeting, the CY2018 Budget was approved with \$7.13 million in projected borrowing for capital expenditures.

DISCUSSION:

The CY2018 budget approved by City Council authorized staff to spend dollars associated with capital projects starting January 1, 2018. Additionally, as part of the same budget approval, Council tentatively authorized staff to pursue issuing bonds for the payment of any and all unfunded capital projects, with Council having final approval on any bond sale.

This tight timeframe between budget adoption and the start date of the budget means the City does not have the opportunity to issue bonds before expenditures begin on capital projects. To ensure all CY2018 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 amongst 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 Treasury Departments' regulation Section 1.150-2. To satisfy the federal regulation the reimbursement needs to meet three (3) 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 in 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 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 any and 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 2018 issuance.

Project Listing	Estimated Costs
E-government Initiatives	\$1,856,260
Building Maintenance and Upgrade Programs	\$1,169,000
Stormwater Management Programs	\$771,000
Traffic Improvement Programs	\$2,426,000
Other Capital Investment	\$912,740
Total	\$7,135,000

Each January at a City Council meeting staff will seek approval of the “Official Intent of Reimbursement Resolution” to provide authorization to reimburse the City for all planned capital projects in the following budget year.

The following is the preliminary timeline for the planned 2018 bond sale:

- Financial Advisory Board (FAB) - end of August
- Rating Agency Meetings - September
- City Council Approval of Bond Ordinance - September
- Bond Sale - October
- Bond Closing - October

FISCAL IMPACT:

N/A