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Title: Adopt the resolution of Official Intent for Reimbursement of Capital Projects

Sponsors:

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Attachments: 1. 2022 Capital Reimbursement Resolution

Date	Ver.	Action By	Action	Result
1/18/2022	1	City Council	adopted	

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:

As part of the annual budget process, the City Council reviewed the proposed 2022-2026 Capital Improvement Program (CIP) over the course of three budget workshops. The proposed 2022 CIP included \$21,202,000 in capital projects without an identifiable funding source. The proposed budget contemplated the issuance of general obligation bonds to fund various capital projects, including investment in roads, bridges, and water utility infrastructure.

A total of \$10,000,000 is to fund water infrastructure improvements, as a part of the expanded capital program approved in conjunction with the 2021 rate study. This expanded program allows for an additional 3.2 miles of water main replacement per year, as well as support for other various water/wastewater infrastructure projects. An additional \$7,428,000 is to fund improvements to right-of-way infrastructure, including road, bridge, and sidewalk improvements.

The budget also contemplates the issuance of bonds for the 2022 phase of the downtown streetscape project. This project, originally scheduled for 2020, was deferred due to the COVID-19 pandemic. Construction is now scheduled to begin in 2022 with the reconstruction of the streetscape along portions of Jefferson Avenue, Main Street, and Jackson Avenue.

The City would borrow an estimated \$3,774,000 for the project construction. Of that amount, the City will fund 60% of the resulting debt service, with the other 40% being paid by the adjacent property owners through taxes levied in Special Service Area (SSA) 30 and SSA 34 (if approved).

On December 7, 2021, the City Council approved the 2022 Budget and affirmed the plan to issue bonds for these unfunded capital projects, as needed.

DISCUSSION:

The 2022 Budget approved by City Council authorized staff to spend dollars associated with capital projects starting January 1, 2022. 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 2022 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 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 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 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 2022 issuance.

Project Listing	Estimated Costs
Right-of-Way Improvements	\$11,202,000
Water Utility Infrastructure	\$10,000,000
Total	\$21,202,000

Each January, staff seeks approval from the City Council to establish the “Official Intent of Reimbursement Resolution” to provide authorization to reimburse the City for all planned capital projects in the following budget year. The City has adopted the practice of borrowing for capital projects on a reimbursement basis to avoid 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 project actual spending on capital projects for the year. Once actual borrowing needs are established, staff works 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.

FISCAL IMPACT:

N/A