



CITY OF BANNING STAFF REPORT

TO: CITY COUNCIL

FROM: Douglas Schulze, City Manager

PREPARED BY: Lincoln Bogard, Administrative Services Director

MEETING DATE: July 9, 2024

SUBJECT: Consideration of Resolution 2024-126, Declaring the Intent of the City to be Reimbursed for Certain Capital Expenditures from the Proceeds of Indebtedness

RECOMMENDATION:

Approve Resolution 2024-126.

BACKGROUND:

The City recently undertook electric system improvement projects that are essential for it to deliver efficient and safe service to the community. To incur obligations that are tax-exempt, which provides the lowest cost of borrowing to the City, the City needs to comply with certain IRS requirements. The IRS allows a bond issuer to use the proceeds of its bond issuance to reimburse expenditures made prior to the time bonds are issued, but only so long as the City expresses an intent to do so prior to the actual issuance.

JUSTIFICATION:

A reimbursement resolution is the required expression of intent and is needed if the City will want to use proceeds of tax-exempt obligations to reimburse itself for costs it actually pays prior to the issuance of the obligations. It then can use the tax-exempt proceeds to reimburse itself for costs of the project paid up to 60 days prior to the date the resolution is adopted, subject to certain limitations, the main one being: reimbursement (bond issuance) must occur not later than 18 months after the later of (i) the date on which the expenditure is paid, or (ii) the date on which the project is placed in service, but in no event more than 3 years after the expenditure was paid. No reimbursement resolution is required for reimbursement of soft costs (with a 20% limit for soft costs older than 60 days prior to the resolution).

FISCAL IMPACT:

This would allow the City to help bring the cash balance in electric back to, or near, a positive balance. The repayment over the bond term, potentially 20 years, will help keep rate increases to a minimum. Rather than user fees alone bringing cash to the minimum Council set reserve level of \$11 million over saw five years, that burden could be spread over up to a 20 year period and coincide better with the long-term asset lives.

ALTERNATIVES:

In order to reimburse from proceeds of the proposed tax-exempt obligations, the City has been advised by its municipal advisor that the City Council should adopt a resolution indicating the City's intent to so reimburse. The proposed resolution meets the IRS requirement enabling the reimbursement for prior expenditures. There is no consequence to the City if the obligations are ultimately not issued.

ATTACHMENTS:

1. [Resolution 2024-126, Indebtedness.docx](#)