

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
FROM: DEBORAH LAUCHNER, CHIEF FINANCIAL OFFICER  
SUBJECT: INTENTION TO REIMBURSE FOR COURTHOUSE SQUARE  
EXPENDITURES

AGENDA ACTION: RESOLUTION

---

RECOMMENDATION

It is recommended by the Finance Department that the Council, by resolution, declare the City's intention to reimburse the City's General Fund for Courthouse Square Reunification project expenditures from the proceeds of tax-exempt general fund lease obligation.

---

EXECUTIVE SUMMARY

The Finance Department has been authorized to secure financing in the form of tax-exempt lease obligation (which could take the form of lease certificates of participation (COPs) or a direct lease financing on a private placement basis) for the balance of the funding needed for the Courthouse Square Reunification Project (the Project). In order to ensure the funds are available for the project, and due to the timing of closing the transaction, the City may need to pay for a portion of the project costs prior to receiving the funding. In order for the City to be certain that it can use proceeds of the lease obligations to reimburse the general fund for project costs expended while the financing is being finalized, the Council must approve a resolution of intention to reimburse the expenditures from the lease obligation.

The Finance Department will return to Council on July 12, 2016 to request approval of the financing and the documents associated with the financing with the expectation that the transaction will close on or about August 1, 2016.

BACKGROUND

In general, issuers of tax-exempt debt must have a reasonable expectation of spending at least 85% of the proceeds within three years. United States Income Tax Regulations section 1.150-2 provides generally that proceeds of tax-exempt debt are not deemed to be expended when such proceeds are used for reimbursement of expenditures made prior to the date of issuance of such debt unless certain procedures are followed, one of

INTENTION TO REIMBURSE FOR COURTHOUSE SQUARE EXPENDITURES  
PAGE 2 OF 3

which is a requirement that (with certain exceptions), prior to the payment of any such expenditure, the issuer declare an intention to reimburse such expenditure.

With respect to the Courthouse Square project, due to the timing of project construction and the financing process, there could be a short period of time where the costs are incurred and payable prior to completion of the financing and receiving the financing proceeds. This resolution allows the City to reimburse its general fund from tax-exempt lease proceeds for expenditures paid in that gap period.

PRIOR CITY COUNCIL REVIEW

On September 22, 2015, the Council held a Study Session regarding financing options for the City and which options could be appropriate for the proposed Project.

On September 22, 2015, the Council, in open session, provided direction to pursue the reunification of Courthouse Square with a maximum project cost of \$10 million and to pursue Certificates of Participation as the preferred financing option.

On November 3, 2015, the Council appropriated \$500,000 from the General Fund unassigned fund balance in order to begin the design work for the Project.

On March 15, 2016, the Council appropriated General Fund unassigned fund balance to the Project in the amount of \$2,410,000. The information provided at that meeting included the proposed financing plan which outlined that 50% of the Project would come from existing resources and 50% would be financed. This appropriation brought the funding for the Project to that 50% of existing resources amount or \$5 million. In addition, at that time the Parking Fund obligation had not been determined. Once the Parking fund obligation was determined at \$465,854, that amount was released back to the General Fund unassigned fund balance.

On April 19, 2016, the Council awarded the construction contract for the Project. The information provided included a total budget for the project of \$9,199,000.

ANALYSIS

The Finance Department is currently evaluating whether it will be more cost-effective for the Courthouse Square Reunification Project financing to take the form of publicly-sold COPs or a direct lease financing on a private placement basis.

In either case, it is important to maximize the City's ability to reimburse the General Fund for project costs from proceeds of the tax-exempt lease financing.

FISCAL IMPACT

There is no fiscal impact from approving the resolution. If the resolution is not approved, there could be a fiscal impact on the general fund because the City would be unable to

INTENTION TO REIMBURSE FOR COURTHOUSE SQUARE EXPENDITURES  
PAGE 3 OF 3

reimburse from tax-exempt lease proceeds any project costs paid by the City before the Finance Department can complete the financing process. This resolution provides the City the opportunity to reimburse project costs from tax-exempt lease proceeds that are incurred and payable in that gap period.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Resolution

CONTACT

Deborah Lauchner, Chief Financial Officer [dlauchner@srcity.org](mailto:dlauchner@srcity.org) (707) 543-3089