



Lake Havasu City

Lake Havasu City
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Council Chambers
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Legislation Text

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COUNCIL COMMUNICATION

TO: Honorable Mayor and Council

FROM: Tabatha Miller, Administrative Services Director

SUBJECT:

Adopt Resolution No. 16-3080 Approving Reimbursement of Future Bond Proceeds for Expenditures Made Prior to Debt Issuance

FUNDING SOURCE:

Lease Proceeds

PURPOSE:

To approve a Reimbursement Resolution that will allow the City to be reimbursed for expenditures on capital projects and capital outlay prior to issuance of the debt.

BACKGROUND:

During the budget work sessions and at the City Council meetings in which the Fiscal Year (FY) 2016-17 was discussed and adopted, staff introduced the impact of the State-Imposed Expenditure Limitation on the City's ability to budget and spend available revenue and resources. The Expenditure Limitation caps the amount municipal governments can expend in any year to the revenues received in FY 1979-80, adjusted annually by population change and inflation.

Lake Havasu City has been able to operate within the constraints of the Expenditure Limitation since 1980 because of its growth in population (*until 2010*), increases in inflation and the exclusion of the Irrigation Drainage District from the Limit. The Great Recession reduced City spending but with the rebounding economy and renewed revenue sources, citizens and visitors expect additional City facilities (*such as sports fields*) and expanded services. Moreover, the City has the resources to fund at least some of these expectations. The issue is not one of available resources but a lack of spending capacity.

The decline in City's population has stopped but current growth is nowhere near the level it was in the 1990s and 2000s and is not sufficient to keep the Expenditure Limitation at a level that will allow the City to expend the City's available revenues and resources. The City's current Community Investment Program (CIP) was developed assuming that cash would be used to fund projects for the next three years.

Regrettably, that level of total City spending will exceed the Expenditure Limitation and will deplete the

reserve of prior year revenues exempted from the Limit. A solution, which will allow the City to complete the CIP projects - is to issue debt. The expenditure of debt proceeds is exempt from the Expenditure Limitation as is the annual repayment of the debt.

Staff has tentatively planned to issue debt of up to \$22 million in early November, 2016. The debt term is projected to be five years and will include call provisions that would allow it to be paid off early, since the cash is available.

Approval of this Reimbursement Resolution, allows the City to be reimbursed for expenditures on the projects listed on Exhibit A of the Resolution. The projects listed on Exhibit A, includes capital outlay for fiscal year 2016-17 and CIP projects planned for the next three years. The total project costs exceed the potential maximum debt issue of \$22 million. This provides for flexibility in which projects are constructed using bond proceeds. Reimbursement is available for expenditures made up sixty days prior to adopting the Resolution and up to 18 months after the expenditure is paid or when the project is placed in service (*whichever is later*), so long as this is within three years of the original expenditure.

Nothing contained in the Reimbursement Resolution authorizes debt issuance. That will require separate action by the City Council.

COMMUNITY IMPACT:

The CIP projects included in Exhibit A will increase the reliability of the City's infrastructure, provide additional attractions and services for City residents and visitors and improve the overall appearance and functionality of the City.

FISCAL IMPACT:

The projects listed in Exhibit A are included in the CIP or included in the capital outlay budget for fiscal year 2016-17. Cash funding was originally identified for these expenditures. The City will incur interest on the borrowed money and some costs associated with debt issuance but the intent is to limit the interest expense by issuing short-term debt and utilizing call features to pay it off early. Given the short nature of the debt, staff and the City's Financial Advisor, Mark Reader, anticipate an interest rate at or less than 1.5% annually.

ATTACHMENTS:

Resolution No. 16-3080

SUGGESTED MOTION:

I move to adopt Resolution No. 16-3080 approving reimbursement of future bond proceeds for expenditures made prior to debt issuance.