



AGENDA ITEM SUMMARY

City Council

STAFF

Blaine Dunn, Accounting Director
Chad Crager, Broadband Executive Director
John Duval, Legal

SUBJECT

Resolution 2023-027 Expressing the Official Intent of the City to be Reimbursed for Expenditures Relating to the Construction of Improvements to the City's Broadband System Through the Issuance of Bonds.

EXECUTIVE SUMMARY

The purpose of this item is to declare the City's official intent to reimburse itself for the capital costs it has incurred or will incur for Connexion with the proceeds it will receive from the future issuance of bonds to further fund Connexion capital costs.

STAFF RECOMMENDATION

Staff recommends adoption of the Resolution.

BACKGROUND / DISCUSSION

Both Light and Power and Connexion anticipate needing to borrow money through bond offerings in 2023. The projects for Light and Power and Connexion each have different timelines, so it is expected expenditures for Connexion will occur before the issuance of additional bonds, and exhaust currently available funds. Reimbursement of expenditures with bond proceeds is allowed for soft costs. However, in order to reimburse expenditures incurred for capital costs, an official declaration by Council must be made.

The maximum aggregate principal amount of future bonds issued for Connexion cannot exceed \$20,365,000 as provided in City Charter Article XII, Section 7(b).

Also, in order for the City to be able to use the proceeds from the issuance to reimburse Connexion for any capital expenditures prior to the bond issuance, and at the same time maintain the tax-exempt status of the bonds, the Internal Revenue Service (Treasury Regulation 26 C.F.R. §1.150-2) requires the City Council adopt this Resolution. This Resolution represents the City's declared official intent to reimburse the applicable City funds for such expenditures with the proceeds from the issuance of the bonds.

The declaration of official intent through the Resolution complies with federal regulations. It also provides more flexibility to the City so it can better manage the capital expenditures related to the Projects. With this Resolution, the City can make the capital expenditure prior to issuing the bonds and later reimburse the applicable City fund with the proceeds from the issuance of the bonds.

CITY FINANCIAL IMPACTS

The declaration of this official intent through the Resolution complies with federal regulations. It also provides more flexibility to the City so it can better manage the capital expenditures related to Connexion.

Staff presented updated financial projections for Connexion at the January 10, 2023, Work Session. In that meeting, the capital project estimate was updated, reflecting a need to access approximately \$16 million additional capital to complete the network build-out and customer ramp-up by the end of 2024. An additional \$3 – \$5 million for excess operating expenses was also estimated to be needed.

These estimates remain unchanged. The table below highlights the original Business Plan capital assumptions, approved spending updates, project spending to date and the current project estimate.

Description	Business Plan and Approved Updates	01/31/2023 LTD Spent	Current Project Estimate thru Dec 2024
Network (Primarily AEG)	\$84M	\$107M	\$110M
Installation (On Trac, boring)	\$13M	\$17M	\$36M
Equipment & All Other	<u>\$12M</u>	<u>\$18M</u>	<u>\$12M</u>
Subtotal Business Plan	\$109M		
Contingency & Re-deploy – Sept. 2021	\$13M		
L&P Reserves Appropriated – Apr. 2022	<u>\$20M</u>		
Total Capital Budget/Estimate	\$142M	\$136M	\$158M

Connexion’s maximum funding need is expected by December 2024, with 2025 expected to be breakeven before the generation of excess cashflows that will be able to service the L&P reserve usage payback plus new bonding commitments. To date, Connexion has issued \$129.6 million of the \$150 million voter approved amount to support Connexion’s build. This leaves over \$20 million available for additional funding needs.

BOARD / COMMISSION / COMMITTEE RECOMMENDATION

This topic was presented to Council Finance Committee on March 2, 2023, and the Committee supported this Resolution coming forward to the full Council.

PUBLIC OUTREACH

N/A

ATTACHMENTS

1. Resolution for Consideration
2. Presentation