



## STAFF REPORT

**MEETING DATE:** August 13, 2025

**PRESENTER:** Josefina Alvarez, Finance Director

**SUBJECT:** Reimbursement of Capital Expenditures from Proceeds of Tax-Exempt Obligations (JA)

**RECOMMENDATION:** Council by motion adopt resolution declaring intention to reimburse expenditures from proceeds of tax-exempt obligations.

### EXECUTIVE SUMMARY:

The City of Kerman (the City) is planning to finance public capital improvements, anticipated to consist of a new multi-generational community resiliency center and improvements to the City's new police station. The financing will be undertaken via the issuance of long-term tax-exempt bonds via a public offering.

For the bonds to be issued tax-exempt, the City needs to comply with certain Internal Revenue Code (Code) requirements. The Code 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 issuer expresses an intent to do so prior to the actual issuance of the bonds.

A reimbursement resolution is the required expression of intent and is needed if the City wants to potentially reimburse itself for costs it actually pays prior to the issuance of bonds. More specifically, the City can use tax-exempt bond proceeds to reimburse itself for certain capital costs 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. It is acceptable for the City to adopt a reimbursement resolution notwithstanding the fact that eventually it is determined one was not needed.

To reimburse from proceeds of the proposed tax-exempt bonds, the City has been advised by its bond counsel that the Council should adopt a resolution indicating the City's intent to so reimburse.

The resolution recommended for approval meets the requirement of the Code enabling the reimbursement for certain prior expenditures. The reimbursement will be only from proceeds of the bonds and is not a general obligation of the City.

**FISCAL IMPACT:**

Adopting the resolution will allow the City flexibility to reimburse itself from the proceeds of future tax-exempt bonds. The amount of this reimbursement has not been quantified, but preserving this flexibility will only benefit the City. There is no cost to adopt the resolution. Approval of the amount, timing and costs of any future bond financing will be presented to the Council at a future meeting.

**ATTACHMENTS:**

- A. Resolution