



CITY OF MILPITAS AGENDA REPORT (AR)

Item Title:	Adopt a Resolution Authorizing Reimbursement of Fire Station No. 2 Capital Improvement Expenditures from the Proceeds of Future Tax-Exempt Obligations
Category:	Consent Calendar-Leadership and Support Services
Meeting Date:	12/3/2019
Staff Contact:	Walter C. Rossmann, 408-586-3111
Recommendation:	Adopt a Resolution Authorizing Reimbursement of Fire Station No. 2 Capital Improvement Expenditures from the Proceeds of Future Tax-Exempt Obligations

Background:

The 2019-2024 Adopted 5-year Capital Improvement Program as approved by the Council assumes the issuance of lease revenue bonds in Fiscal Year 2020-21 for the replacement of Fire Station No. 2 in the amount of \$13 million to fund about two-thirds of the anticipated cost of nearly \$21 million. The lease revenue bonds would be repayable over time from payments made by the City from the General Fund. The remaining cost of the project would be paid by the General Fund. Bond financing allows the City to fund this important capital project taking advantage of low interest rates and spreading the cost and benefit of the improvement to taxpayers over 30 years.

Fire Station No. 2, located on Yosemite Drive, was constructed in the late 1960s and has exceeded its design life. The new fire station will be designed to meet the current "Essential Services Buildings" requirements as well as current building and fire codes. It will be designed to provide for an additional fire apparatus bay as well as providing sustainable elements, gender equality/privacy, and operational efficiencies to improve response times. Work also includes construction of a temporary fire station, building demolition, site cleanup, furnishings, fixtures, & equipment (FF&E), and new site improvements.

Analysis:

The City Council is being asked to adopt a reimbursement resolution (Resolution) to allow the General Fund to be reimbursed from future tax-exempt bond proceeds for Fire Station No. 2 capital improvement costs incurred prior to closing of the bond sale. This will allow the City to optimize the timing of the bond sale at a later date. Council is not being asked to approve any bond sales at this time; passing this Resolution does not obligate the City to any action in the future. Staff anticipates returning to Council for approval to issue the lease revenue bonds in April 2020, when all of the necessary bond documents are ready for Council consideration and approval.

The use of tax-exempt bond proceeds must comply with Internal Revenue Service (IRS) guidelines. Tax-exempt bonds typically save the City and taxpayers money, as they typically come with lower interest costs. In general, tax-exempt bonds can only be used to pay for capital improvement expenditures made following the issuance of the bonds. However, if a "reimbursement resolution," like the one being recommended for Council approval is adopted, then the tax-exempt bonds may pay for capital improvement costs incurred up to 60 days prior to the adoption of the reimbursement resolution.

Policy Alternatives:

Alternative 1: Do not approve the Resolution.

Pros: None

Cons: The City will not be able to reimburse itself in order to recover cash it spent on capital improvement costs related to the Fire Station No. 2 capital project up until the closing of the bond sale.

Reason not recommended: The 2019-2024 Adopted 5-year Capital Improvement Program as approved by the Council assumes the issuance of lease revenue bonds in Fiscal Year 2020-21 for the construction of Fire Station No. 2. The design phase has proceeded to the point that relocation to a temporary fire station and construction of the new Fire Station No. 2 is anticipated to start summer 2020.

Fiscal Impact:

Not applicable.

Recommendation:

Adopt a Resolution Authorizing Reimbursement of Fire Station No. 2 Capital Improvement Expenditures from the Proceeds of Future Tax-Exempt Obligations

Attachment:

Resolution