



TO: Mayor and Councilmembers

SUBMITTED BY: Luke Rioux, Finance Director

SUBJECT: Declaration of Intention to Reimburse Certain Expenditures from the Proceeds of Tax-Exempt Obligations

RECOMMENDATION:

Adopt Resolution No. 24-__ entitled, “A Resolution of the City Council of the City of Goleta, California, Declaring its Intention to Reimburse Certain Expenditures from the Proceeds of Tax-Exempt Obligations”

BACKGROUND:

On December 19, 2023, the City Council awarded the construction contract for Project Connect, approved budget appropriations from various funds, and directed staff to prepare a financing reimbursement resolution and pursue tax-exempt financing as a contingency.

On April 2, 2024, during a workshop on the Capital Improvement Program (CIP), staff presented updates on the CIP project sheets, funding estimates, and budget appropriations for FY 2024/25. Funding strategies for active priority capital improvement projects with identified unfunded amounts were also discussed, focusing on Annual Work Program projects, must-do projects with grant deadlines, and emergency projects. Two main priority projects for potential tax-exempt financing were identified: the Cathedral Oaks Crib Wall Repair Project (Project No. 9053) and the San Jose Creek Bike Path – Northern and Southern Segments (CIP Project No. 9006). In addition, it was discussed that staff will be bringing back a reimbursement resolution for financial flexibility as part of the overall strategy. Staff was directed to continue working with its municipal financial advisor to put together the financing team, evaluate funding, and consider issuing tax-exempt obligations.

On June 18, 2024, the City Council held a public hearing on the adoption of the FY 2024/25 Budget. During this public hearing, staff presented a summary of major updates to the CIP since the CIP Budget Workshop. This update included revised project cost estimates based on recent bids and discussed that the reimbursement resolution will include the Goleta Train Depot and South La Patera Improvements (CIP Project No. 9079) as a contingency.

DISCUSSION:

The resolution aims to provide financial flexibility for future tax-exempt obligations for its priority capital improvement transportation-related CIP projects. It also allows the city to reimburse itself with debt proceeds for projects recently funded by the General Fund or other eligible funds. The resolution only declares the City’s intent to issue tax-exempt obligations and does not bind the City into issuing these obligations, which would be decided in a future City council meeting.

The financing team, in collaboration with the municipal financial advisor, is finalizing a cost-effective funding strategy for three priority projects and is still in its preliminary stages. Those three projects are Cathedral Oak Crib Wall Repair (CIP Project No. 9053), San Jose Creek Bike Path – Northern and Southern Segment (CIP Project No. 9006), and Goleta Train Depot and South La Patera Improvements (CIP Project No. 9079). In addition, staff is including recently awarded projects that have significant General Fund component that could also potentially be utilized.

Pending future review and approval, the City Council expects to provide for the issuance of tax-exempt obligations, such as Lease Revenue Bonds and Sales Tax Revenue Certificates of Participation (together, the “Obligations”) in 2024 to finance the construction of various transportation projects. These projects include the Ekwil Street and Fowler Road Extensions, Hollister Avenue Old Town Interim Striping, Hollister Avenue Bridge Replacement, San Jose Creek Bike Path – Northern and Southern Segments, Cathedral Oaks Crib Wall Repair, and Goleta Train Depot and South La Patera Improvements (collectively, the “Project”). The City may elect to advance certain of its own funds toward the Project. The City will advance funds on the understanding that it can be reimbursed for amounts expended on the Project from the subsequent sale of the Obligations. The Internal Revenue Code has certain requirements that need to be satisfied in order for a public agency to reimburse itself for costs incurred for capital projects in advance of the sale of tax-exempt Obligations. In order to qualify the City for reimbursement of such costs from the proceeds of the execution and delivery of the Obligations, the City Council must adopt a resolution that satisfies all of the requirements of the Internal Revenue Code within 60 days of the date on which the expenditures have been made.

The City’s bond counsel has prepared the attached resolution which complies with applicable requirements of the Internal Revenue Code and allows the City to reimburse itself for any advanced Project costs from the proceeds of the sale of the Obligations. The adoption of this resolution does not obligate the City to ever advance funds toward the Project. The adoption of this resolution preserves the option for the City Council to decide at a subsequent date whether or not it would be in the best interests of the City to allocate a portion of any proceeds of the sale of the Obligations towards the reimbursement of the monies the City might spend on the Project.

There is a reference in this resolution to \$37,000,000 as the reasonably expected maximum principal amount of the Obligations. The Internal Revenue Code obligates this resolution to include an estimated size of the borrowing from which reimbursement will occur. The City Council is not required to maintain this \$37,000,000 amount. It is included to satisfy a legal requirement and constitutes only a rough estimate of the likely size of the Obligations that the City Council may consider. If the City were to sell a smaller borrowing, such a decision would not adversely affect its ability to use a portion of the proceeds of the Obligations to reimburse itself for these costs.

Next Steps

The financing team is finalizing the recommended options and strategies, including evaluating potential leased assets for lease revenue bonds and using Measure A for sales tax revenue certificates of participation. In August and September, staff will first meet with the Finance Committee to discuss the recommended options further in detail and then with the City Council for review and approval to move forward. At that time, detailed information on financing options, debt capacity, fiscal impacts, and issuance timing for the projects will be discussed.

GOLETA STRATEGIC PLAN:

City-Wide Strategy 3: Ensure Financial Stability

- **Strategic Goal 3.2:** Enhance revenue by seeking grants and implementing financing strategies that strengthen the City's Budget
 - **Objective 3.2.1:** Evaluate debt financing options and secure financing for large infrastructure projects with long useful lives to achieve intergenerational equity.

FISCAL IMPACTS:

The Resolution only declares the City's intent to issue tax-exempt obligations and does not authorize or otherwise bind the City into issuing obligations. The Resolution stipulates a reasonably expected maximum principal amount of up to \$37 million to provide for any project adjustments and debt issuance costs. The \$37 million is based on the estimated amounts (rounded up), primarily needed in total for the Cathedral Oaks Crib Wall Repair (\$19.2 million), San Jose Creek Bike Path – Northern and Southern Segments (\$15.5 million), and Goleta Train Depot (\$1.5 million). Fully funded projects are listed for additional flexibility if needed for debt structuring.

Adopting the Resolution allows the City to maintain the option to obtain tax-exempt obligations for 18 months from the project costs expenditure date (three years if the City qualifies for a small issuer exception in the calendar year of debt issuance). Approval of this action has no current fiscal impact but enables the City to replenish the General Fund or other eligible local funds with future tax-exempt obligation proceeds. As a reminder, this is still in the early stages of the process, and detailed fiscal impacts will be discussed further with the Finance Committee and City Council.

ALTERNATIVES:

The City Council may choose not to approve the resolution. Without a reimbursement resolution, the City would be limited to reimbursing only expenditures incurred within 60 days of any tax-exempt obligation issuance. The City Council could also defer the action and provide direction to staff.

LEGAL REVIEW BY: Megan Garibaldi, City Attorney

APPROVED BY: Robert Nisbet, City Manager

ATTACHMENTS:

1. Resolution No. 24-__ entitled "A Resolution of the City Council of the City of Goleta, California, Regarding Its Intention to Reimburse Certain Expenditures from the Proceeds of Tax-Exempt Obligations" inclusive of Exhibit A: Project Descriptions

ATTACHMENT 1

Resolution No. 24-__ entitled, "A Resolution of the City Council of the City of Goleta, California, Declaring its Intention to Reimburse Certain Expenditures from the Proceeds of Tax-Exempt Obligations"

RESOLUTION NO. 24-__

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GOLETA, CALIFORNIA, DECLARING ITS INTENTION TO REIMBURSE CERTAIN EXPENDITURES FROM THE PROCEEDS OF TAX-EXEMPT OBLIGATIONS

WHEREAS, the City Council of the City of Goleta (the “City”) desires to finance the costs of constructing certain public facilities and improvements, as provided in Exhibit A attached hereto and incorporated herein (the “Project”);

WHEREAS, the City intends to finance the construction of the Project or portions of the Project with the proceeds of the sale of obligations the interest upon which is excluded from gross income for federal income tax purposes (the “Obligations”); and

WHEREAS, prior to the issuance of the Obligations the City desires to incur certain expenditures with respect to the Project from available monies of the City prior to the issuance of indebtedness by the City or by a joint powers financing authority organized pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the issuer of such indebtedness is referred to as the “Issuer”) for the purpose of financing costs associated with the Project on a long-term basis, which expenditures are desired to be reimbursed by the Issuer from a portion of the proceeds of the sale of the Obligations.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF GOLETA AS FOLLOWS:

SECTION 1.

The City hereby states its intention and reasonably expects to reimburse Project costs incurred prior to the issuance of the Obligations with proceeds of the Obligations. The Project is described in Exhibit A attached hereto.

SECTION 2.

The reasonably expected maximum principal amount of the Obligations is \$37,000,000.

SECTION 3.

This resolution is being adopted on or prior to the date (the “Expenditures Date or Dates”) that the City will expend monies for the portion of the Project costs to be reimbursed from proceeds of the Obligations.

SECTION 4.

Except as described below, the expected date of issue of the Obligations will be within 18 months of the later of the Expenditure Date or Dates and

the date the Project is placed in service; provided, the reimbursement may not be made more than three years after the original expenditure is paid. For Obligations subject to the small issuer exception of Section 148(f)(4)(D) of the Internal Revenue Code, the “eighteen-month limit” of the previous sentence is changed to “three years” and the limitation of the previous sentence beginning with “; provided, ...” is not applicable.

SECTION 5.

Proceeds of the Obligations to be used to reimburse for Project costs are not expected to be used, within one year of reimbursement, directly or indirectly to pay debt service with respect to any obligation (other than to pay current debt service coming due within the next succeeding one year period on any tax exempt obligation of the Issuer (other than the Obligations)) or to be held as a reasonably required reserve or replacement fund with respect to an obligation of the Issuer or any entity related in any manner to the Issuer, or to reimburse any expenditure that was originally paid with the proceeds of any obligation, or to replace funds that are or will be used in such manner.

SECTION 6.

This resolution is consistent with the budgetary and financial circumstances of the City, as of the date hereof. No monies from sources other than the Obligation issue are, or are reasonably expected to be reserved, allocated on a long-term basis, or otherwise set aside by the City (or any related party) pursuant to their budget or financial policies with respect to the Project costs. To the best of our knowledge, this City Council is not aware of the previous adoption of official intents by the City that have been made as a matter of course for the purpose of reimbursing expenditures and for which tax-exempt obligations have not been issued.

SECTION 7.

The limitations described in Section 3 and Section 4 do not apply to (a) costs of issuance of the Obligations, (b) an amount not in excess of the lesser of \$100,000 or five percent (5%) of the proceeds of the Obligations, or (c) any preliminary expenditures, such as architectural, engineering, surveying, soil testing, and similar costs other than land acquisition, site preparation, and similar costs incident to commencement of construction, not in excess of twenty percent (20%) of the aggregate issue price of the Obligations that finances the Project for which the preliminary expenditures were incurred.

SECTION 8.

This resolution is adopted as official action of the City in order to comply with Treasury Regulation § 1.150-2 and any other regulations of the Internal Revenue Service relating to the qualification for reimbursement of City expenditures incurred prior to the date of issue of the Obligations, is part of

the City's official proceedings, and will be available for inspection by the general public at the main administrative office of the City.

SECTION 9.

All the recitals in this Resolution are true and correct and this City Council so finds, determines and represents.

SECTION 10.

The City Clerk shall certify to the passage and adoption of this Resolution and enter it into the book of original resolutions.

PASSED, APPROVED AND ADOPTED this 16th day of July, 2024.

PAULA PEROTTE, MAYOR

ATTEST:

APPROVED AS TO FORM:

DEBORAH S. LOPEZ
CITY CLERK

MEGAN GARIBALDI
CITY ATTORNEY

STATE OF CALIFORNIA)
COUNTY OF SANTA BARBARA) ss.
CITY OF GOLETA)

I, DEBORAH S. LOPEZ, City Clerk of the City of Goleta, California, DO HEREBY CERTIFY that the foregoing Resolution No. 24-__ was duly adopted by the City Council of the City of Goleta at a regular meeting held on the 16th day of July, 2024, by the following vote of the Council:

AYES:

NOES:

ABSENT:

(SEAL)

DEBORAH S. LOPEZ
CITY CLERK

EXHIBIT A

PROJECT DESCRIPTIONS

The following information describes the projects the City intends and reasonably expects to reimburse project costs before the issuance of the obligations with proceeds of the obligations:

1. Ekwil Street and Fowler Road Extensions (CIP Project No. 9002)

This project will construct Ekwil Street across Goleta Old Town from Kellogg Avenue to Fairview Avenue and extend existing South Kellogg Avenue (to be renamed Fowler Road) from its terminus to the existing Technology Drive. The new streets will be two-lane roads and include Class II Bike Lanes and sidewalks/parkways. The project also includes three roundabouts: two at the Hollister Avenue/State Route 217 Interchange and one at the intersection of Pine Avenue and Ekwil Street. The project will improve traffic flow on Hollister Avenue and provide new east/west corridors in Old Town. The work budgeted includes environmental, design, permitting, right-of-way acquisition, and construction of the project.

2. Hollister Avenue Old Town Interim Striping Project (CIP Project No. 9114 – Now a part of Ekwil Street and Fowler Road Extensions - CIP Project No. 9002)

The Hollister Avenue Old Town Interim Striping Project will design and construct an interim striping project consisting of implementing the two-lane alternative for Hollister Avenue developed as part of the Hollister Avenue Complete Streets Corridor Project. The project consists of implementing a road diet by changing roadway striping, legends, and signage and adding Class II bike lanes where none currently exist. Other improvements identified in the Complete Streets Corridor Plan, such as sidewalk widening, new medians, landscaping, and other hardscape improvements, would be deferred. The project would follow the standard Project Delivery Process with Conceptual Design, Environmental, Design and Construction. The project includes one vehicle and bike lane in each direction, A non-traversable painted median, back-in angled 90-minute parking along the north side of the street, parallel 90-minute parking along the south side of the street, pavement restoration, traffic signal equipment and timing upgrades

3. Hollister Avenue Bridge Replacement (CIP Project No. 9033)

This is the second phase of the San Jose Creek Capacity and Fish-Passage Improvement project. The project includes the replacement of the Hollister Avenue Bridge over San Jose Creek and extends upstream the San Jose Creek Channel capacity and fish-passage improvements both under and downstream of Hollister Avenue. The new bridge will have a 100-year storm flow capacity.

4. San Jose Creek Bike Path – Northern and Southern Segments (CIP Project No. 9006)

The San Jose Creek Bike Path Project as a whole extends approximately three miles alongside San Jose Creek from the California Coast Route path in the south to Cathedral Oaks Road and the Goleta Crosstown Bicycle Route in the north. The northern portion of the project begins north of Calle Real extending south along San Jose Creek to Armitos Avenue where it connects to the San Jose Creek Middle Extent Project at Armitos Ave. The southern portion of the project then continues south from the Ekwill Street intersection at Kellogg Avenue, crosses over the San Jose Creek channel and continues along SR 217 to cross underneath SR 217 in a culvert/tunnel just north of the SR 217 bridge over San Jose Creek. The Project lies within both the City and Santa Barbara County and within the California Coastal Zone. Project improvements include: either 8-foot-wide paved with 2 foot graded shoulders or 10-foot wide paved path, bicycle and pedestrian bridge over San Jose Creek channel, tunnel undercrossing at SR 217, retaining walls, concrete barriers, drainage features, crossing improvements, lighting, striping, and ADA accessibility.

5. Cathedral Oaks Crib Wall Repair (CIP Project No. 9053)

The project includes repairing the crib walls and multi-purpose path along the north side of Cathedral Oaks Road, which was damaged during past storm events. A Geotechnical Engineering firm performed a comprehensive and systematic full-scale geotechnical investigation of the two crib walls along the northern side of Cathedral Oaks Road to determine the potential failure mechanisms related to the crib wall design and construction. The work included drilling approximately 23 geotechnical borings ranging between 25 feet to 80 feet below ground surface (equal to twice the height of the retaining wall), performing geophysical crosshole logging and ground penetrating radar (GPR) that was not performed during previous investigations, collecting and analyzing soil sample in the laboratory, and developing and providing recommended structural repair options and cost estimates. This project will be entering the design phase.

6. Goleta Train Depot and South La Patera Improvements (CIP Project No. 9079)

The Neighborhood Services Department will construct a new multi-modal train station at the location of the existing Amtrak platform. The new Train Depot will include facilities for ticketing, passenger waiting, dining, meeting rooms, restrooms/showers, and bike storage. The Project site is adjacent to the existing AMTRAK platform at the northern end of South La Patera Lane. The project will also include expanded parking, bus facilities, and on-site bicycle and pedestrian improvements.