

FOR BOARD ACTION

Agenda Item # 6

Meeting Date:

5/29/12

SUBJECT:

Approve Requesting Reimbursement Authorization for CAPX 2020 Transmission Project

PREPARED BY:

Susan Parker, Director of Corporate Services

ITEM DESCRIPTION:

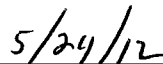
The Internal Revenue Service regulations generally require that the City of Rochester, acting through its Utility Board, make a declaration of its official intent to reimburse itself for capital expenditures out of the proceeds of a subsequent bond issue within 60 days after the payment of the expenditures. The City Council has delegated the declaration authority to Dale Martinson, City Finance Director.

With the upcoming construction of the CAPX 2020 transmission project, we are requesting to put in place a declaration of intent to reimburse for costs incurred prior to issuing the bonds. The maximum amount requested to be declared for the reimbursement under the IRS regulations is \$44,000,000. This does not mean that the amount will be financed it simply allows us to seek reimbursement in a future tax exempt financing. The debt issuance will come at a later date and will require Utility Board and City Council approval.

UTILITY BOARD ACTION REQUESTED:

The Board is requested to approve a resolution to request the City Finance Director to prepare and execute the declaration of reimbursement bonds for the CapX2020 transmission project for a maximum amount of \$44,000,000, plus issuance costs.


General Manager


Date

ROCHESTER PUBLIC UTILITIES

CITY OF ROCHESTER, MINNESOTA

**DECLARATION OF OFFICIAL INTENT TO REIMBURSE CERTAIN
EXPENDITURES FROM THE PROCEEDS OF TAX-EXEMPT BONDS**

The undersigned Finance Director, the person designated by the City Council of the City of Rochester, Minnesota (the "City") to declare official intent on behalf of the City, by this Declaration of Official Intent to Reimburse Certain Expenditures from the Proceeds of Tax-Exempt Bonds (the "Declaration"), intends to declare such official intent under U.S. Treasury Regulations, Section 1.150-2 (the "Reimbursement Regulations"), as follows:

1. The City reasonably expects that it will incur and pay certain original expenditures for the design, acquisition and construction of the CAPX 2020 transmission line, (collectively, the "Project"), which expenditures will be financed temporarily from sources other than the proceeds of tax-exempt bonds and which are expected to be reimbursed from the proceeds of one or more series of tax-exempt bonds (the "Bonds"). The maximum principal amount of the Bonds to be issued to finance the Project is \$44,000,000.

2. This Declaration is made not later than 60 days after payment of any original expenditure for the Project to be subject to a "reimbursement allocation" (as such term is defined in the Reimbursement Regulations) with respect to the proceeds of the Bonds.

3. All reimbursement allocations with respect to the Bonds will be made not later than eighteen (18) months after the later of: (i) the date the original expenditure is paid; or (ii) the date the Project is placed in service or abandoned, but in no event more than three (3) years after the original expenditure is paid for a specific item of Project. If the Bonds are eligible for the \$5,000,000 "small issuer" exception from arbitrage rebate, the "eighteen (18) months" limitation is extended to "three (3) years" and the "three (3) years" maximum reimbursement period is not applicable.

4. All original expenditures to which reimbursement allocations are to be made constitute: (i) capital expenditures; (ii) costs of issuance of the Bonds; (iii) expenditures as described in U.S. Treasury Regulations, Section 1.148-6(d)(3)(ii)(B) for extraordinary, nonrecurring items that are not customarily payable from current revenues, such as casualty losses or extraordinary legal judgments in amounts in excess of reasonable insurance coverage, and for which no reserve or other available amounts are maintained; or (iv) a grant, as defined in U.S. Treasury Regulations, Section 1.148-6(d)(4), as a transfer for a governmental purpose of money or property to a transferee that is not a related party to or an agent of the transferor with respect to which no obligation or condition is imposed to directly or indirectly repay any amount to the transferor.

5. The limitations set forth in paragraphs 2 and 3 of this Declaration do not apply to: (i) the costs of issuance of the Bonds; (ii) an amount not in excess of the lesser of \$100,000 or five percent (5%) of the proceeds of the Bonds; or (iii) preliminary expenditures up to an amount not in excess of twenty percent (20%) of the aggregate issue price of the Bonds that finance or are reasonably expected by the City to finance the Project for which the preliminary expenditures were incurred. The term "preliminary expenditures" includes architectural, engineering, surveying, soil testing, reimbursement bond issuance, and similar costs that are incurred prior to commencement of acquisition, construction, or rehabilitation of the Project, other than land acquisition, site preparation, and similar costs incident to commencement of construction.

6. The proceeds of the Bonds (or amounts corresponding to the proceeds of the Bonds) may not be used (directly or indirectly) within one year after the date of the reimbursement allocation in a

manner that results in the creation of replacement proceeds (as defined in U.S. Treasury Regulations Section 1.148-1) of the Bonds or another issue. The preceding sentence does not apply to proceeds or other amounts deposited into a bona fide debt service fund. A reimbursement allocation will not result in an expenditure of proceeds of the Bonds for federal income tax purposes if the allocation employs an abusive arbitrage device (within the meaning of U.S. Treasury Regulations, Section 1.148-10) to avoid the arbitrage restrictions or to avoid the restrictions of Sections 141 through 150 of the Internal Revenue Code.

7. This Declaration is an expression of the reasonable expectations of the City based on the facts and circumstances known to the City as of the date hereof. The anticipated original expenditures for the Project are consistent with the City's budgetary and financial circumstances. No sources other than proceeds of the Bonds are, or are reasonably expected to be, reserved, allocated on a long-term basis, or otherwise set aside pursuant to the City's budget or financial policies to pay such original expenditures for the Project.

8. This Declaration is intended to constitute a declaration of official intent for purposes of the Reimbursement Regulations.

Dated: May 30, 2012.

CITY OF ROCHESTER, MINNESOTA

City Finance Director



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to request the City Finance Director to prepare and execute the declaration of reimbursement bonds for the CAPX 2020 Transmission project in the amount of \$44,000,000, plus issuance costs, in accordance with Internal Revenue Service Section 1.150-2 of the Income Tax Regulations.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 29th day of May, 2012.

President

Secretary