

CITY COUNCIL

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☐ **APPROVED** ☐ **DENIED**

Reso No. _____ File No. _____

Ord No. _____

Agenda Item No.: 15

Date: March 24, 2010

TO: Honorable Mayor and Members of the City Council

FROM: Joyce Masterson, Assistant to the City Manager/Project Manager
Gilbert Rojas, Director of Finance

SUBJECT: APPROPRIATION OF PROP P INTEREST EARNINGS

RECOMMENDATION:

It is requested that Council authorize appropriating \$573,000 of interest earnings from the \$84.3 million General Obligation Bond to the construction budget for the Police and Fire Headquarters (Account 220-171501) to assist with construction costs.

FISCAL ANALYSIS:

None.

CORRELATION TO THE CITY COUNCIL ACTION PLAN:

This item relates to the Public Safety Facilities element of the 2007-2008 Council Action Plan.

PREVIOUS ACTION:

On March 25, 2009, Council previously authorized appropriating \$7,000,000 of interest earnings from \$84.3 million General Obligation Bond to the construction budget for the Police and Fire Headquarters.

BACKGROUND:

Since the sale of the bond in 2006 the City has earned \$7,809,287 in interest through December 31, 2009. On March 25, 2009, Council authorized transferring \$7,000,000 of the interest earning to the construction budget for the Police and Fire Headquarters.

The interest earnings are held in the Local Agency Investment Fund. Staff anticipates that the interest earnings will be reduced by approximately \$236,277.73 as a result of having to pay arbitrage fees. Arbitrage is an IRS term used in IRS regulation which ensures a municipality does not have windfall profits from interest earnings. If a city invests tax-exempt bonds that earn a yield materially higher than the yield of the bond issue, then that City is required to return the excess earnings to the Federal

Government. In essence, arbitrage is designed to prevent cities from issuing bonds and then deliberately holding off on construction for years in order to earn high levels of interest. Construction on the public safety facilities occurred in a timely manner, but due to the interest rates rising above the bond yield, the City still will be subject to some arbitrage fees. After setting aside the anticipated arbitrage payment, the City will have approximately \$573,000 of interest available for use. This could either be used to defray the Police and Fire Facility construction shortfall or it could be used to pay down the bond.

Staff recommends appropriating \$573,000 in Prop P interest earnings to the Police and Fire Headquarters budget (Account 220-171501) to assist with construction costs.

Respectfully submitted,



Joyce Masterson
Assistant to the City Manager

Respectfully submitted,



Gilbert Rojas
Director of Finance