

**SOUND TRANSIT  
STAFF REPORT**

**RESOLUTION NO. R2003-11**

**Designating Capital Outlays for Potential Reimbursement**

<b>Meeting:</b>	<b>Date:</b>	<b>Type of Action:</b>	<b>Staff Contact:</b>	<b>Phone:</b>
Finance Committee	6/5/03	Discussion/Possible Action to Recommend	Hugh Simpson, Finance Director	(206) 398-5082
Board	6/12/03	Board Approval Action	<b>Brian McCartan</b> <b>Deputy Finance Director</b>	(206) 398-5100

**OBJECTIVE OF ACTION**

To authorize the Executive Director to designate certain capital outlays for potential reimbursement from Board authorized bond issuance. Allows Sound Transit to apply bond proceeds to capital outlays incurred prior to issuance of long-term bonds.

**ACTION**

Designating and appointing the Executive Director as the Sound Transit responsible official for the purpose of designating certain expenditures for potential reimbursement from bonds that may be authorized and approved for issuance by the Board in the future.

**KEY FEATURES**

- Allows Sound Transit to apply bond proceeds to capital outlays incurred prior to issuance of long-term bonds.
- Executes a certificate of official intent substantially in the form attached hereto as Exhibit A.

**BUDGET IMPACT SUMMARY**

There are no budget impacts for this action.

**BUDGET DISCUSSION**

Not applicable for this action.

**REVENUE, SUBAREA, AND FINANCIAL PLAN IMPACTS**

Not applicable for this action.

**BUDGET TABLE**

Not applicable for this action.

**M/W/DBE – SMALL BUSINESS PARTICIPATION**

Not applicable for this action.

## **HISTORY OF PROJECT**

When a public entity issues bonds, it usually does so at tax-exempt rates. It can take the proceeds of bond sales and invest them at taxable rates. As taxable investment rates exceed tax-exempt borrowing rates, there is a potential for the public entity to earn “arbitrage” on its bond proceeds. For example, a public entity may borrow at 5% tax-exempt rate and reinvest those proceeds at a 6% taxable rate – earning 1% of arbitrage earnings.

The U.S. Treasury has a series of complex regulations regulating when and how public entities must repay arbitrage earnings to the U.S. Government. The regulations also specify under what conditions a public entity can reimburse itself for past capital outlays, therefore avoiding a potential arbitrage liability. They require that if a public agency wants to use tax-exempt bond proceeds to reimburse itself for funds already expended it must file a reimbursement certificate indicating its intention to fund projects from future bond proceeds. The reimbursement certificate must be issued within 60 days of the actual outlay. The agency can then be reimbursed from bond proceeds for a period of up to three years.

Example: Sound Transit anticipates spending \$10 million in fiscal year 2003 for the XYZ Park and Ride Lot. The Executive Director signs a Reimbursement Certificate in 2003 indicating that the agency intends to fund the Park and Ride Lot out of future bond proceeds. In 2004, Sound Transit issues a \$10 million bond to fund its capital projects. Upon receipt of the bond proceeds, it can apply \$10 million of those funds to the XYZ Park and Ride Lot outlays from 2003. Under U.S. Treasury regulations, Sound Transit will have “spent” all its bond proceeds immediately and will have no arbitrage rebate liability.

This action delegates to the Executive Director the authority to issue certificates that would allow Sound Transit to use future bond proceeds to reimburse itself for prior capital expenditures. The certificates require that the Executive Director simply identify the project for future reimbursement.

### **Prior Board or Committee Actions and Relevant Board Policies**

<b>Motion or Resolution Number</b>	<b>Summary of Action</b>	<b>Date of Action</b>
Motion No. 98-7	Authorizing Sales Tax and Motor Vehicle Excise Tax Bonds	11/12/98

## **CONSEQUENCES OF DELAY**

A delay in implementing reimbursement authority will reduce the amount of capital outlays that could qualify for reimbursement from bond proceeds and might have a negative financial impact on the agency.

**PUBLIC INVOLVEMENT**

Not applicable for this action.

**LEGAL REVIEW**

MMB 5/5/03

## **SOUND TRANSIT**

### **RESOLUTION NO. R2003-11**

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority designating and appointing the Executive Director as the Sound Transit responsible official for the purpose of designating certain expenditures for potential reimbursement from bonds that may be authorized and approved for issuance by the Board in the future.

WHEREAS, a Regional Transit Authority, hereinafter referred to as Sound Transit, has been created for the Pierce, King, and Snohomish County region by action of their respective county councils pursuant to RCW 81.112.030; and

WHEREAS, on November 5, 1996, at a general election held within the Central Puget Sound Regional Transit Authority district, the voters approved local funding for Sound Move, the ten-year plan for high capacity transit in the Central Puget Sound Region; and

WHEREAS, Sound Transit issues tax-exempt obligations from time to time for the purpose of financing its governmental activities; and

WHEREAS, the United States Department of the Treasury has promulgated certain regulations limiting the ability of municipalities to use the proceeds of tax-exempt obligations for reimbursement of prior expenditures; and

WHEREAS, the regulations permit Sound Transit to appoint one or more officials for the purpose of identifying and qualifying capital projects for reimbursement purposes.

NOW, THEREFORE, BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority, as follows:

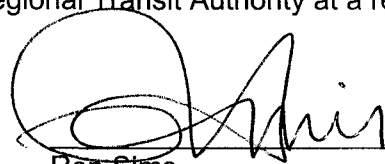
Section 1. Appointment of Executive Director. Pursuant to U.S. Treasury Regulation Section 1.103-18(f), the Board hereby designates and appoints the Executive Director of Sound Transit as the responsible official for the purpose of issuing statements of official intent in compliance with Treasury Regulation Section 1.103-18.

Section 2. Statements of Official Intent. Upon a determination by the Executive Director that the costs of a particular capital project may be reimbursed from the proceeds of a

tax-exempt obligation(s) of Sound Transit, the Executive Director is authorized and directed to execute a certificate of official intent, substantially in the form attached hereto as Exhibit A. Each certificate so executed shall become a part of the official records of Sound Transit available for public inspection and review.


No capital projects will be undertaken unless such projects have been previously approved in the customary manner by the Board, and the execution of any certificate of official intent shall not obligate Sound Transit to issue any debt.

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on June 12, 2003.



Ron Sims  
Board Chair

ATTEST:



Marcia Walker  
Board Administrator

**EXHIBIT A**

**FORM OF OFFICIAL INTENT CERTIFICATE**

Pursuant to Resolution No. \_\_\_\_ adopted by the Board of Sound Transit on \_\_\_\_\_,  
the undersigned, Executive Director of Sound Transit hereby states as follows:

Section 1. Sound Transit reasonably expects to reimburse the expenditures described herein with the proceeds of debt to be incurred by Sound Transit (Reimbursement Bonds).

Section 2. The maximum principal amount of Reimbursement Bonds expected to be issued is \$\_\_\_\_\_.

Section 3. The expenditures with respect to which Sound Transit reasonably expects to be reimbursed from the proceeds of Reimbursement Bonds are for \_\_\_\_\_  
[insert general functional description of the property, project or program, for example, power lines to be situated at \_\_\_\_].

Dated this \_\_\_\_ day of \_\_\_\_\_.

Signed by:

Title:

\_\_\_\_\_

\_\_\_\_\_