



ADMINISTRATIVE DIRECTIVE

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I. **PURPOSE**

To establish procedures and responsibilities for scheduling bond sales and the execution of bond-funded City projects to ensure compliance with Federal arbitrage regulations.

II. **SCOPE**

This directive applies to all projects that have been approved through the City’s capital budget process (see Administrative Directive 1.07-1, “Capital Improvement Program”) for funding from the sale of bonds, and for which bond capacity is available from a prior vote of electorate.

III. **DEFINITIONS**

A. **Allowable Interest Rate** – A rate on investment of bond proceeds which is equal to the yield on the bond issue.

B. 1. **Arbitrage Expenditure Schedule** – Arbitrage Regulations require expenditure of bond proceeds (including interest earnings) within the following time periods for the proceeds to be exempt from rebate or penalty:

Funds Used For Construction (And Acquisition If Acquisition Is No More Than 25% Of The Issue):

6 Months	10% Expended
12 Months	45% Expended
18 Months	75% Expended
24 Months	100% Expended (Less Retaining Up to 5%)
36 Months	100% Expended

Funds Used For Acquisition, If Acquisition (Land, Buildings, Machinery, Equipment) Is More Than 25% Of The Issue:

6 Months	100% Expended
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2. **Bifurcation of an Issue** – If Expenditures for Acquisition represent more than 25% of an issue, the City can bifurcate the issue (i.e., divide the issue into two issues) for accounting purposes. If an issue is bifurcated, the Acquisition portion will be subject to the six-month expenditure requirement and the construction portion will be subject to the three-year expenditure requirement.



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- C. **Bond Delivery Date** – The date on which there is a delivery of the bonds in exchange for the bond sale proceeds.
- D. **Issue** – Two or more projects are part of the same “issue” if they:
 1. Are issued at substantially the same time,
 2. Are sold pursuant to a common plan of financing, and
 3. Will be paid out of substantially the same source of funds.
- E. **Project** – Any governmental project financed by the issue of governmental obligations including the acquisition, construction, installation, and/or equipping of City facilities.
- F. **Rebate Account** – An account in the City books of account in which interest earned on the bonds will be credited. This account shall contain a sub account called the earnings account and a sub account called the excess account.

IV. **POLICY**

The City Manager will direct the Finance Director to proceed with a bond sale and will determine the type of bonds and amount of bonds to be sold.

Departments and offices shall be responsible to plan and execute bond-financed projects in a manner that satisfies the Performance Standards listed in Section V.B., below. The Finance Department and the responsible department/office shall monitor project activities to ensure compliance with these Performance Standards and the underlying Internal Revenue Service arbitrage regulations.

V. **GENERAL**

- A. **Performance Standards** – The planned execution of bond funded projects shall comply with the federally established performance standards listed below:
 1. At the time of the sale of bonds, the City shall reasonably expect to spend all of the bond proceeds and interest earned thereon at the allowable interest rate within three (3) years from the bond delivery date.
 2. The City shall establish a rebate account and deposit earnings and any excess earnings over the amount that would have been earned if investments were invested at a rate equal to the yield to the bond issue. Any excess earnings and interest thereon shall be paid to the U.S. Government at least every 5 years.



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3. If at the end of the three (3) year period all the bond proceeds and interest earnings thereon have not been expended, an extension should be requested from the Finance Director.

B. Transmittal – Once the responsible department or office is notified that they will be receiving bond sale proceeds to fund a capital improvement project, the department should prepare and forward to the Budget and Research Department and the Finance Department the following schedules:

1. A schedule showing separately the amounts programmed for the project construction costs and project acquisition costs (acquisition includes land, buildings, and equipment).
2. Project performance/completion schedules for the project to be financed by the sale of the bonds. Separate completion schedules shall be prepared for acquisition and construction costs.
3. A statement to indicate whether the projects will be completed within the arbitrage expenditure schedule.

C. The Finance Director shall review these schedules to support the certificate that the Mayor, City Clerk, and Finance Director must execute at bond closing on behalf of the City of Tucson.

VI. RESPONSIBILITY FOR REVIEW

The Deputy City Manager shall review this directive annually in October, or as necessary.

AUTHORIZED:

CITY MANAGER