



CITY OF SAN LUIS
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December 12, 2018

Howie Jorajuria
Vice President and Senior Lending Officer
First Bank Yuma
2755 South 4th Avenue
Building 2, Suite 101
Yuma, Arizona 85364

**Re: City of San Luis Opinion Letter as Requested in the
First Bank Yuma Financing Proposal dated November 15, 2018**

Dear Vice President Jorajuria:

I am the City Attorney for the City of San Luis ("City"). In your Financing Proposal dated November 15, 2018, you require an opinion letter from City Attorney determining whether interest paid to First Bank of Yuma on the proposed loan will be tax-free. For this opinion, I have examined your proposed terms of an installment loan for financing the acquisition of a new vehicle. The vehicle is trash collection truck which consists of a Peterbilt chassis and Scorpion body components.

Pertinent Internal Revenue Code

The federal government exempts interest income from federal income taxes on obligations of political subdivisions such as the City. Internal Revenue Code section 103 states in part:

(a) Exclusion.--Except as provided in subsection (b), gross income does not include interest on any State or local bond.

...

(c) Definitions.--For purposes of this section and part IV--

(1) State or local bond.--The term "State or local bond" means an obligation of a State or political subdivision thereof.

...

Under Internal Revenue Code section 115:

Gross income does not include--

(1) income derived from any public utility or the exercise of any essential governmental function and accruing to a State or any political subdivision thereof

The rationale behind the tax-free interest income is that since the money from the loan to the City will fund governmental services needed by the public, the federal government supports the local government by making the interest income free of federal taxation.

Conclusion and Opinion

The City will use the vehicle to collect trash as part of its regular trash collection service which is an essential governmental function under Internal Revenue Code 115. The proposed loan will be an obligation of the City under Internal Revenue Code 103. It is my opinion and I certify that the City is a political subdivision under Internal Revenue Code 103 and that any interest paid to First Bank Yuma on a loan such as the one in the Financing Proposal of November 15, 2018 (which is attached to this opinion) is excluded from gross income under Internal Revenue Code section 115. Therefore, any interest paid by the City on the installment loan for the vehicle would be tax-free to First Bank Yuma.

Further, it is my opinion that the City has authority to enter into a loan with First Bank Yuma towards the purchase of the trash collection truck at the 4.5% market interest rate which the City and First Bank negotiated on the basis that the interest rate the City pays to First Bank Yuma is tax-free.

Sincerely,

Kay Marion Macuil
San Luis City Attorney

Copy: Tadeo A. De La Hoya, City Manager
Monica Castro, Finance Director
Eulogio Vera, Public Works Director