

SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET

Date: June 11, 2009

Agenda Item #: Action A 2

SUBJECT: Wastewater Treatment Plant Financing Options

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director *LK*

ISSUE:

The issue is to select the preferred alternative for funding installation of the centrifuge for the Wastewater Treatment Plant based on discussion during the June 9, 2009 Special Council meeting. The project is scheduled to start in July and be completed by October 2009. Additional financing needs to be secured by the end of June 2009.

STAFF RECOMMENDATION:

Staff recommends establishing the line of credit for \$400,000 to cover any contingencies on the Centrifuge project and refunding all or part of the 1996 bonds if there is a cost benefit. The City would only draw funds as needed with Council approval.

SUMMARY STATEMENT:

The Centrifuge installation will begin in July. The City will need its financing in place no later than June 30th. The Council considered the following policy issues:

- 1) Does the City want to use capital reserve funds and complete the project on a "pay as you go" basis? The current available balance in the reserve fund is \$302,029.
- 2) The City currently budgets \$126,000 for Water/Sewer bond payments annually. The current bonds will be paid off in 2016. Does the City want to maintain the same annual payment?
- 3) What options does the City want to consider to allow for flexibility in meeting expenses and pursuing opportunities for funds?
- 4) Does the City want to move the project forward as funds are available?

In December 2008, the City awarded a contract to Triad Mechanical for \$637,749 to purchase and install the Centrifuge Project at the Wastewater Treatment Plant (WWTP). The City received a \$500,000 legislative proviso for upgrading the WWTP. Brown and Caldwell have estimated the total cost to be \$800,000 to complete the centrifuge project. This includes \$637,749 for construction and \$162,251 for construction management and contingencies.

The City needs approximately \$300,000 to complete the centrifuge for the Wastewater Treatment Plan. This would provide funds for the centrifuge, financing costs and contingency funds. The City also needs to complete the engineering

design phase of the wastewater plant expansion. Staff recommends the line of credit for \$400,000 to cover any contingencies. The City would only draw funds as needed with Council approval.

To date, the City has spent \$1 million dollars in PWTF Pre-Construction loan money toward the design of the Wastewater Treatment Plant which is at 50% complete. An application for a PWTF loan for an additional \$500,000 to complete the design was approved for submittal to the State in April 2009. Currently, the \$1 million design loan is on a 5 year repayment schedule with three years left to pay. The amortization schedule is included as Attachment A.

Staff reports from October 23, 2008 and December 11, 2008 were provide on June 9, 2009 as background on the Centrifuge project.

FISCAL IMPACTS:

City Staff and Councilmembers met with Jane Towery of Piper Jaffray to discuss funding options to complete the Centrifuge project. The following outline the options discussed:

Financing Options: The options, for discussion, available to the City include the following. Each has its pros and cons.

1. A public bond issue for the \$400,000 and refunding of some or all of the 1996 bonds.
2. A fixed rate bank loan for up to 10 years which would include the 1996 bonds if cost-beneficial.
3. A variable rate line of credit with a bank for 5 years, with 5-year renewal options, with or without the refinancing of the 1996 bonds. (This line of credit could be refinanced to fixed rate debt at anytime during these periods.)
4. A variable rate line of credit with take-out of permanent fixed-rate, publicly issued bonds, sometime within the next 3 years.
5. Interim financing with a bank line of credit, to be taken out by a USDA loan.
6. Don't borrow additional funds; use reserve funds and pay as you go.

What is a Bank Line of Credit? The City would issue a Bond Anticipation Note and "sell" it to the Bank. Instead of receiving all the funds immediately, the funds can be drawn as needed. The City would only pay interest on the amount of principal outstanding. The City has complete flexibility to repay or to convert the debt into fixed rate in the public market or with the bank, if it is willing.

There is risk with a bank line of credit since it is tied to prime rate. As prime changes, so would the effective rate on the line. Prime rate, however, does not change frequently so it is possible for the City to convert to fixed rate fairly quickly if there is a market for the City's bonds.

Utilizing the line of credit for the refunding of the City's outstanding 1996 issue with a final maturity of 2016 does present the City with some risk given it is not possible to

predict the debt service savings over the life of the issue. Given long-term fixed-rate debt is at relatively high rates at present, the City may want to consider only calling a few maturities which have the higher rates of 6.15% and 6.2%. That amount is approximately \$455,000. The City would keep outstanding the maturities at 6% to 6.05% in order to hedge some of its risk.

Financial Policies: Given the interest rate on a bank line of credit is variable, the City will want to consider some policy of maintaining its utility rates based on a higher interest rate assumption in order to provide some cushion in the event rates move quickly up. In that situation, the delay between the interest rate change and when the City could change the utility rates could impact the City's cash flow negatively.

Interest Rates: At this time, there are no firm interest rates that can be quoted as exact bank quotes cannot be obtained without their own credit review process. However, in broad terms, the City would be looking at approximately 5.8% to over 6% on fixed rate debt based on a fixed rate bond sold as a bank loan or in the public market. The rate appears to be high but this is representative of the rate the City would obtain as a non-rated, non-insured credit.

Recent quotes on the line of credit option range from 85% to 95% of Prime rate, which is currently 3.25%

The USDA rate would be based on term of the debt and changes quarterly.

RECOMMENDATIONS:

Staff recommends establishing the line of credit for \$400,000 to cover any contingencies on the Centrifuge project and refunding all or part of the 1996 bonds if there is a cost benefit. The City would only draw funds as needed with Council approval.

Attachments: A. Amortization Schedule



Public Works Board

AMORTIZATION SCHEDULE

Department of Community, Trade, and Economic Development
 210 11th Ave. SW, Suite G2, P.O. Box 48319, Olympia, WA 98504-8319

Enter values for the fields shown in yellow below to explore different scenarios. Required fields are shown with a red asterisk. Information shown in green is computed for you, but you may change the values, if desired. The amortization worksheet is automatically updated to reflect each change you make.

Payment Schedule:

Year	Due	Draws	Refunds	Interest	Principal	Payment	Balance
1	7/1/2007	250,000.00		652.78		652.78	250,000.00
2	7/1/2008			5,000.00	62,500.00	67,500.00	187,500.00
3	7/1/2009	750,000.00		3,468.75	312,500.00	315,968.75	625,000.00
4	7/1/2010			3,125.00	312,500.00	315,625.00	312,500.00
5	7/1/2011			1,562.50	312,500.00	314,062.50	0.00
6	7/1/2012						0.00
7	7/1/2013						0.00
8	7/1/2014						0.00
9	7/1/2015						0.00
10	7/1/2016						0.00
11	7/1/2017						0.00
12	7/1/2018						0.00
13	7/1/2019						0.00
14	7/1/2020						0.00
15	7/1/2021						0.00
16	7/1/2022						0.00
17	7/1/2023						0.00
18	7/1/2024						0.00
19	7/1/2025						0.00
20	7/1/2026						0.00
21	7/1/2027						0.00
22	7/1/2028						0.00
23	7/1/2029						0.00
24	7/1/2030						0.00
25	7/1/2031						0.00
26	7/1/2032						0.00
27	7/1/2033						0.00
28	7/1/2034						0.00
29	7/1/2035						0.00
30	7/1/2036						0.00
31	7/1/2037						0.00
Total		\$1,000,000.00	\$0.00	\$13,809.03	\$1,000,000.00	\$1,013,809.03	

Client:	City of Sultan
Loan Number:	PW-06-962-PRE-131
Project Description:	Wwtp Upgrade
Initial Loan Amount:	\$1,000,000.00
Initial Local Match:	\$55,000.00
Initial Match %:	5.50%
Initial Interest Rate:	2.00%
Date Loan was Authorized:	6/30/2006
Loan Amount at Closing:	\$1,000,000.00
Local Match at Closing:	\$0.00
Match % at Closing:	0.00%
Interest Rate at Closing:	0.50%
Closing Date:	5/5/2009
Loan Type:	PreConstruction
Loan Term (Years):	5
Years Principal is Deferred:	1