

SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET

Date: September 10, 2009

Agenda Item #: Action A 3

SUBJECT: Wastewater Treatment Plant Financing Options

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

ISSUE:

The issue is to approve a \$400,000 line of credit loan with a commercial bank to complete the funding for the Centrifuge project. The City is working with US Bank and other banks to determine the best terms and rates.

SUMMARY STATEMENT:

Based on further analysis, the refunding of the outstanding Water/Sewer Revenue Bonds is not viable at this time. The option available is negotiate a commercial loan with a bank with either a variable or a fixed interest rate.

US Bank would provide a loan with variable interest rate assessed at 96% of prime and the fixed rate would be between 5-6%. The fixed rate option would not allow an early payoff of the loan. Staff is working with an advisor to obtain quotes from other banks. US Bank will require a processing fee of \$3,000 to \$6,500 depending on the type of loan. The term of the loan would be twelve years.

The Centrifuge project is underway and scheduled to be complete in October. The City needs to move forward with securing the necessary funds to pay for the project.

RECOMMENDATION:

Staff recommends the Council authorize the Mayor to sign the necessary loan documents to complete the line of credit with US Bank at the variable rate of interest.

BACKGROUND

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 \$400,000 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.

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.

FISCAL IMPACTS:

In June 2009, 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: 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 12 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.
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.

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.

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

ALTERNATIVES:

- 1) Direct staff to return with other recommendations on the funding options.
- 2) Direct staff to proceed with the line of credit application.

RECOMMENDED ACTION:

Authorize the Mayor to sign the necessary loan documents to complete the line of credit with US Bank at the variable rate of interest.