



Where Life is Sweet

Mayor and Members of the City Council
STAFF REPORT
For the Meeting of **July 11, 2022**

Title/Subject

Resolution 2233- Infrastructure Finance Search Authorization

Summary and Background

City staff has begun to search in earnest for a financing partner to help provide the upfront cash necessary to install water, sewer, and park infrastructure for the 1,300 housing unit Prairie Meadows development on Feedville Road. This resolution will serve as documentation to potential lenders that the City Council has delegated authority to the City Manager to submit application materials for borrowing the necessary funds. However, this resolution does not authorize the actual acceptance of any loans. Final acceptance of any loans will still need to come back to City Council for authorization.

The specific lending partner staff is pursuing is Business Oregon's Infrastructure Finance Authority, which also loaned the City \$4.5M for construction of the NE Water Tower recently. City staff has been in contact with regional Business Oregon staff since early 2022 to make them aware that a request would be on the way. Those conversations have allowed this request to finally make it's way through the initial screening processes with IFA to the point of receiving an invitation to apply on June 28. On June 30, City Staff was notified that the rate on the 30-year loan would climb from 2.53% to 3.43% on July 1; which would increase total interest paid over the life of the loan by approximately \$2M. City Staff quickly completed the enclosed application and submitted it on June 30, which locks-in the borrowing rate at 2.53% if our loan application progresses, an offer is extended, and Council chooses to accept the final terms.

In the end, staff doesn't expect this application to make it before the IFA Board until January, 2023, at which time, many of the various financing components will be much more clear, and at that time, Council can still choose to turn down a loan offer and walk away.

Tie-In to Council Goals

Goal #7- Fund infrastructure improvements to support new housing and enhance livability

Fiscal Information

Approval of this resolution will have no fiscal impact on the City. This resolution is to ensure that staff can quickly and effectively work with lending partners in finalizing terms of a potential loan offer from IFA.

The application requests \$12.5M in loan funding from IFA to design and construct:

- \$1.7M Water Transmission Main
- \$771K Booster Pump Upgrade
- \$2.8M Sewer Transmission Main
- \$3.7M Water Storage Tower (2MG)
- \$2.5M Community Park

It is anticipated that the debt will be covered by a combination of repayment methods. It is anticipated that an Urban Renewal Area will be created for this area, and that a marginal component of the increased property tax revenue will go toward covering the debt. However, Urban Renewal starts off with very little revenue. Therefore, it is expected that in order to cover the cash-flow gap, a Development Agreement will be executed with the developer, whereby the developer is required to cover the annual margin between what is owed on this loan, and how much revenue is generated by the urban renewal area. Finally, as a fail-safe backup, the water and sewer utility fund's revenues are being pledged to guarantee the loan.

It is not anticipated that the developer will default, resulting in the Utility Fund having to step in and cover the debt. However, I would point out two things:

1. The bulk of the improvements, the water booster, transmission, and storage, are all set up in such a way that they can provide stored water capacity to the entire city. The 2019 Water System Master Plan notes a need for an additional 4 million gallons of stored water by 2038 to accommodate growth. Therefore, it would not be a stranded investment.
2. The Pro-Forma included in the application clearly shows that the Utility Fund can absorb the annual debt service of a 30-year \$12.5M loan, while maintaining our current pace of Capital Improvement Projects.

Alternatives and Recommendation

Alternatives

1. Approve Resolution 2233
2. Reject Resolution 2233

Recommended Action/Motion

Approve Resolution 2233

Submitted By:

Mark Morgan, Assistant City Manager