



**BUSINESS OF THE CITY COUNCIL  
CITY OF MERCER ISLAND**

**AB 6142  
September 6, 2022  
Consent Agenda**

**AGENDA BILL INFORMATION**

<b>TITLE:</b>	AB 6142: Certification of Public Works Board Low-Interest Loan Applications	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution
<b>RECOMMENDED ACTION:</b>	<ol style="list-style-type: none"> <li>Adopt Resolution No. 1630 authorizing two applications for low-interest loans for the total amount of \$8.3M from the State Public Works Board for the Booster Chlorination Station and Water Reservoir Improvements capital projects.</li> <li>Authorize the City Manager to execute all necessary documents to apply for the loan, and accept the loan, if awarded.</li> </ol>	

<b>DEPARTMENT:</b>	Finance & Public Works
<b>STAFF:</b>	Matthew Mornick, Finance Director Jason Kintner, Chief of Operations
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	1. Resolution No. 1630.
<b>CITY COUNCIL PRIORITY:</b>	2. Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability.

**EXECUTIVE SUMMARY**

Staff seeks the City Council’s support for two loan applications through the State Public Works Board (PWB) low-interest loan program. Applications are due September 9, 2022.

- Water utility rates for the current biennium assumed a portion of current capital projects will include outside funding to offset the more than \$33.1 M in escalated capital spending between 2021-2026.
- As of August 2022, rates for a competitively issued long-term general obligation (LTGO) bond are 3.60%, with rates likely to increase by year-end.
- Interest rates associated with PWB low-interest loans vary between 0.35% and 1.39%, depending on the term of the loan, the nature of the capital project, and the financial health of the community. There are no local match requirements.
- The Booster Chlorination Station project (WU0101) and the Water Reservoir Improvements project (WU0103) are both construction ready with well-defined scopes of work and reliable budget estimates.

## BACKGROUND

As part of the 2021-2022 biennial budget, Finance staff worked with the Utility Board to evaluate and propose rate structures with annual rate changes for the City's water, sewer, and storm water utilities. Utility rates are based on a the "pay as you go" philosophy, which assumes current customer rates pay for the daily operating costs and anticipated capital investment needs for each respective utility.

The Utility Board's recommendation for water, sewer, and storm water rates were unanimously adopted by the City Council in the fall of 2020 (see [AB 5777](#)). They balanced the need for smooth year-over-year rate increases so as not to overburden current utility customers while also ensuring adequate funding at a time when significant capital investments are required to keep the island's utility infrastructure in good working order.

For most capital investments, the "pay as you go" funding model has well served the Island's public utilities. When capital improvements serve multiple generations of rate payers spanning decades of use, it is prudent to spread the cost of these significant infrastructure investments over multiple years by either issuing a bond or taking out a long-term loan.

Current water utility rates assumed staff would seek outside funding to offset the more than \$33.1 M in escalated capital spending required in the Island's water utility system between 2021-2026. Potential large-scale projects that spanned multiple decades include water reservoir improvements, water meter replacements, SCADA system improvements, and the booster chlorination station projects, among others.

Since December 2020, staff met quarterly with bond counsel to track both interest rates associated with a competitive bond sale as well as project readiness for qualifying infrastructure improvements. The ongoing Pandemic delayed project timelines and impeded available construction supplies. As qualifying projects gained momentum, the Federal Reserve (Fed) began raising interest rates to quell the inflationary pressures, thereby increasing the cost of seeking outside funding.

Guided by the Financial Management Policies adopted in September 2021 (see [AB 5943](#)), staff began to evaluate outside funding alternatives. Qualifying projects needed to be through the design phase and shovel ready. The focus was placed on ensuring any debt issuance or loan programs would be entered into prudently and cost effectively to provide flexibility, preserve financial stability, and maintain the City's bond credit rating.

## ISSUE/DISCUSSION

As of August 2022, the all-in true interest cost for the public sale of a 20-year limited-term general obligation (LTGO) bond issuance is estimated at about 3.60%, with rates likely to increase through the end of the year. Alternatively, staff is seeking the City Council's support to apply for a low-interest loan from the State Department of Commerce Public Works Board.

The Public Works Board (PWB) is authorized by state statute (RCW 43.155) to loan money to cities to repair, replace, or create domestic water systems, sanitary sewer systems, storm water systems, roads, streets, solid waste and recycling facilities, and bridges. The maximum amount of funding that the Board may provide for any jurisdiction is \$10 M, with up to a 25-year payback period, per biennium.

Interest rates associated with PWB low-interest loans vary between 0.35% and 1.39% at the highest, depending on the term of the loan, the nature of the capital project, and the financial health of the community. There are no local match requirements.

Staff seeks the City Council's support for two low-interest loan applications for WU0101 (\$3.3 M) construction of the Booster Chlorination Station, and WU0103 (\$5.0 M) water reservoir improvements. Construction of the Booster Chlorination Station was approved in 2021 and is currently under construction (see [AB 5913](#)).

The Reservoir Improvement Project includes both steel reservoir tanks being recoated (exterior and interior) as well as other improvements (e.g., cathodic protection replacement, vent replacements, roof hatch replacements, etc.) to improve operations and improve site security. Engineering and design are anticipated to be completed in 2022, with construction of the South Tank improvements scheduled in 2023 and the North Tank the following year.

Both projects are ready to be constructed within the next biennium with a well-defined scope of work and reliable budget estimates. Furthermore, there is no indication of issues that would prevent implementing the project soon after the funds were received. If awarded, the City would seek a 20-year term loan for each project.

The current application cycle for all programs opened June 6, 2022. Applications are due midnight on September 9, 2022, with awards likely to go out October 2022.

## **RECOMMENDED ACTION**

Staff recommends that the City Council:

1. Adopt Resolution No. 1630 authorizing two applications for low-interest loans for the total amount of \$8.3M from the State Public Works Board for the Booster Chlorination Station and Water Reservoir Improvements capital projects.
2. Authorize the City Manager to execute all necessary documents to apply for the loan, and accept the loan, if awarded.