

**ROCHELLE CITY COUNCIL
AGENDA ITEM MEMO
REGULAR MEETING**

SUBJECT: Airport & Tech Center Capital Funding Update

Staff Contact: Matt Hoffman, Finance Director

Summary:

As part of the City's planned 2026 financing, staff previously brought forward an authorizing ordinance to issue General Obligation (Alternate Revenue Source) Bonds to support capital improvements at the Rochelle Municipal Airport and the Tech Center. The Airport project includes construction of a new eight-unit T-hangar and associated site improvements, with an estimated cost of approximately \$2.0 million, of which approximately \$1.2 million is expected to be reimbursed through federal and State of Illinois funding. The Tech Center improvements are currently estimated at approximately \$1.3 million, bringing the total anticipated financing need for both projects to approximately \$3.3 million. Since that time, staff has continued working with the City's municipal advisor, bond counsel, and underwriter on structuring the issuance and preparing the related bond documents.

During the course of this process, interest rates have increased and remain elevated, with continued volatility driven by broader economic uncertainty and current geopolitical conditions. As a result, issuing debt at this time would likely result in higher borrowing costs than originally anticipated and introduces additional pricing uncertainty.

Given these conditions, staff evaluated alternative financing options and is recommending that the City utilize an interfund loan from the Solid Waste Fund to finance the Airport and Tech Center projects in place of issuing bonds for this portion of the financing.

The proposed interfund loan will be structured with a principal amount not to exceed \$3.3 million, a nominal interest rate of 1.5%, and a 5-year repayment period. The Airport portion of the loan is expected to be partially repaid upon receipt of federal and State reimbursements, with the remaining balance supported by hangar lease revenues, while the Tech Center portion will be repaid through ongoing operating revenues. This structure provides the City with flexibility to manage cash flow, minimizes overall interest expense, and avoids locking in higher long-term borrowing costs in the current rate environment while preserving the City's future debt capacity for larger capital needs.

The Solid Waste Fund maintains sufficient reserves to support this temporary use of funds without impacting operations.

Of the approximately \$140,774 in total estimated issuance costs, including underwriter, legal, and advisory fees, the City would avoid approximately \$125,274 by utilizing an interfund loan, as \$15,500 has already been incurred for the S&P rating.

From an interest cost perspective, the bonding analysis reflects total interest payments of approximately \$974,437 over the life of the bonds at an estimated rate of 3.75%. By comparison, the proposed interfund loan would carry a significantly lower borrowing cost at a 1.5% interest rate over a 5-year term, resulting in total interest costs of approximately \$148,500. This represents an estimated interest savings of approximately \$825,000 relative to the bond issuance.

Based on the proposed structure, annual debt service on the interfund loan is expected to average approximately \$700,000 per year. Of this amount, roughly \$425,000 is attributable to the Airport project and will be supported through a combination of grant reimbursements and hangar lease revenues (with a portion of repayment expected to be accelerated upon receipt of federal and State reimbursements), while approximately \$275,000 is attributable to the Tech Center and will be repaid through ongoing operating revenues.

Recommendation:

Staff recommends utilizing an interfund loan from the Solid Waste Fund to finance the Airport Hangar and Tech Center projects in place of issuing bonds for this portion of the financing.