



STAFF REPORT

Meeting Type: City Council
Meeting Date: March 3, 2025
From: Tyler Deems, City Manager
Subject: Resolution 2025-06: Full Faith and Credit Obligation to Fund Water Capital Projects

DECISION TO BE MADE:

Decide whether to authorize the City Manager to enter into a full faith and credit obligation (FFCO) to fund water capital infrastructure projects and refund prior debt financing. The amount of the new debt financing is an amount not to exceed \$21,000,000 plus the cost to refund the prior debt financing currently estimated at \$4,053,000.

PURPOSE / OBJECTIVE:

The purpose in obtaining \$21 million in new debt financing is to secure necessary funding to construct planned water infrastructure projects at least through Fiscal Year 2026, as well as refunding the remaining outstanding balance of prior debt funding of approximately \$4,053,000. It is critical that the City has funds on hand to ensure that there are no funding related delays, which would ultimately delay the timely completion of the projects.

The purpose of refunding (essentially refinancing the current outstanding debt and rolling it in to the new debt) is to decrease the total annual debt service obligations, allowing the City to minimize future rate increases.

BACKGROUND / CONTEXT:

There are currently several vital capital improvement projects underway related to the City's drinking water system. These improvements increase the production of our own water supply and reduce the amount of water the City needs to purchase from Portland, as well as increasing overall system resiliency. In addition to these investments, a new transmission line to Portland's Bull Run Filtration Plant needs to be constructed to ensure that the City has access to water to meet our summer demand. The City Council recently received a comprehensive program update on [November 4, 2024](#).

The City's average daily demand is 1.33 million gallons per day (MGD) and the maximum demand is 2.59 MGD. While much of this work is needed to ensure reliable capacity, resiliency, and redundancy for our current demands, the projected water demand by 2050 increases to an average daily demand of 2.1 MGD and a maximum demand of 4.2 MGD. Failure to complete the necessary projects in a timely manner could result in water shortages and non-compliance fines.

To complete these immediate capital projects, the City needs to invest \$70 million in the drinking water system, which is comprised of two major projects. To date, \$24.5 million has been secured, with a remaining need of \$45.5 million. Of this remaining need, \$5.5 million is management reserve for unforeseen issues that could arise throughout the constructing process. Staff is not currently looking to fund this amount at this time. Current projections indicate that the City will expend approximately \$21 million over the next two years. Staff is actively working on identifying the best funding package to ensure that future rate increases remain as low as possible. This leaves \$24.5 million that is unfunded, however, this number may decrease as we move forward with bidding projects and getting actual costs.

Drinking Water Projects

- **Alder Creek Treatment Plant** - The Alder Creek Treatment Plant provides nearly 50% of the City's drinking water and has an overall capital improvement plan of nearly \$21.9 million. The improvements being made will increase the production of the plant from 0.9 MGD to 2.4 MGD. The estimated completion of this work is spring 2027. Even with these investments, the City will be unable to meet our current and projected maximum demand for water. To date, \$17.5 million in funding has been secured in a combination of low interest loans from the State of Oregon via the Oregon Business Development Department (OBDD). The remaining \$4.4 million that is currently unfunded will be explored further as project costs are finalized and bids are received.
- **Pipeline to Portland** - The construction of a new transmission line to Portland Water Bureau's Bull Run Filtration Plant is necessary to ensure that the City has a redundant water supply in the event of any disruption to the Alder Creek Treatment Plant, as well as supplement the Alder Creek Treatment Plant supply to meet the maximum demand, both now and in the future. Access to Bull Run water, as well as the connection to Portland's Columbia wellfield, will also be critical for Sandy in the event of emergencies such as wildfire. This project is anticipated to cost \$42.6 million and has an estimated completion date of September 2027 to ensure compliance with the bilateral compliance agreement. To date, \$7.0 million in funding has been secured through OBDD. These funds are specific to the design and engineering

Water Fund Debt

- **New Debt** - The vast majority of the \$21 million will be used for constructing the pipeline and related infrastructure for the City's connection to the Portland's Bull Run Filtration Plant. The benefit of obtaining funding prior to construction is that the City will have the cash on hand to move quickly and efficiently with financing the project. This is in contrast to much of our other funding, which is issued on a reimbursement basis after the costs have already been incurred. The flexibility with this new funding also allows the City to pivot more quickly and use these funds for other water related projects, should the need arise. This flexibility is not possible with a reimbursement loan since the specific project is outlined in the loan construction documents.
- **Refunding of Existing Debt** - In April 2013, the City entered into a Safe Drinking Water Revolving Fund Loan Financing contract with the State of Oregon acting by and through the Oregon Infrastructure Finance Authority in the amount of \$7,500,000 of which approximately \$4,053,000 is currently outstanding for the Sandy / Portland Water Bureau Intertie. Refunding this debt will remove \$469,595 in annual debt service payments and extend the repayment period. The benefit of doing this is to lower the total annual debt service payments in an attempt to stabilize future utility rate increase to the further extent possible.

Project	Budget	Funding Source
Alder Creek Treatment Plant	\$21.9 million	\$2 million – OBDD (Short Term Improvements) \$9.5 million – OBDD (Treatment Plant Upgrades) \$6 million – OBDD (Conveyance, Storage, and Pumping)
Portland to Sandy	\$42.6 million	\$7 million – OBDD (Planning and Design) \$21 million – FFCO (Construction)
Program Management Reserve	\$5.5 million	n/a
Total	\$70 million	\$45.5 million
Remaining		\$24.5 million (subject to change as project costs are further refined)

KEY CONSIDERATIONS / ANALYSIS:

As stated, obtaining \$21 million in new financing will allow the City to continue to move forward in a timely manner to meet our existing project deadlines for both the Alder Creek Treatment Plant and Pipeline to Portland’s Bull Run Filtration Plant. Staff is expected to put the Pipeline project out to bid this spring, and it is imperative that funding is available to start this work as soon as possible.

The term of this FFCO is 20 years, with an estimated interest rate of 5%. This rate does have a bit of a cushion built in (0.5%). The final interest rate will be determined during the time of sale. The debt service would be structured to make interest only payments for the first three years, during the time of construction, at approximately \$1.1 million per year. The following 17 years would be level debt service payments of approximately \$2 million per year.

BUDGET IMPACT:

The City will be required to make annual debt service payments on the new financing. These payments will come from the water fund. The current version of the rate model supports the required debt service payments for the total \$70 million in project costs, however it does not currently reflect this type of loan. FCS Group is currently updating the rate model to reflect this, as well as other factors to ensure that future rate increase are adopted to meet the exact financing needs of the City.

RECOMMENDATION:

Staff recommends that the Council authorize the City Manager to enter into full faith and credit loan not to exceed \$21,000,000 plus an additional amount sufficient to refund certain outstanding obligations, currently estimated at \$4,053,000.

SUGGESTED MOTION LANGUAGE:

“I make a motion that Council votes to authorize the City Manager to enter into full faith and credit loan not to exceed \$21,000,000 plus an additional amount sufficient to refund certain outstanding obligations.”

LIST OF ATTACHMENTS / EXHIBITS:

- Resolution 2025-06 – Full Faith and Credit Obligation 2025