

ITEM #:	<u>1</u>
DATE:	<u>05-19-26</u>
DEPT:	<u>FIN</u>

### COUNCIL ACTION FORM

**SUBJECT:       SETTING DATE OF PUBLIC HEARING FOR A GENERAL OBLIGATION  
                  LOAN AGREEMENT IN A PRINCIPAL AMOUNT NOT TO EXCEED  
                  \$24,000,000 FOR RESOURCE RECOVERY AND RECYCLING CAMPUS  
                  PROJECT**

**BACKGROUND:**

As part of the financing strategy prepared by the City’s design consultant, HDR, Inc., Bond Anticipation Notes (BANs) were incorporated to provide interim financing during the construction phase of the Resource Recovery & Recycling Campus (R3C). BANs are short-term financing instruments, typically offered by banks and financial institutions, commonly used to provide temporary funding prior to the issuance of permanent long-term debt. In many respects, BAN financing functions similarly to a construction loan by allowing the City to access capital during construction while deferring the issuance of permanent long-term financing until the project is substantially complete.

The use of BANs provides several advantages. Most notably, the City benefits from lower short-term interest rates during the construction period and gains additional flexibility in timing the issuance of the permanent financing.

Upon completion of the project, the BANs are expected to be retired through a future General Obligation (GO) bond issuance. Alternatively, the City may evaluate other permanent financing structures at that time, including a direct bank placement or private placement, should market conditions and financing terms prove advantageous.

An additional benefit of utilizing BAN financing is the ability to phase in the rate increases necessary to support long-term debt service obligations. Under a traditional long-term financing structure, the first principal and interest payment would likely have been due on June 1, 2027. By utilizing BAN financing during construction, the first significant long-term debt service payment is anticipated to occur on June 1, 2028. This extended implementation period provides the utility with additional time to align revenues with projected operating and debt service requirements.

Furthermore, the interim financing structure allows the City to evaluate operational performance and revenue generation from the R3C facility prior to the commencement of full annual debt service payments. Modeling performed by HDR, Inc. indicated that, absent the use of BAN financing, the resulting extension of the debt amortization schedule would likely have required substantially larger rate increases beginning in FY 2026/27.

Similar to a traditional bond issuance, the utilization of BANs requires a public hearing. This

resolution would set May 26, 2026, as the date for a public hearing on a proposal to enter into a General Obligation loan agreement in an amount not to exceed \$24,000,000.

If approved, the agreement would provide the funding necessary to support the construction of the Resource Recovery & Recycling Campus (R3C). Based on the bids received and the financial plan established for the construction of the facility, the City is expected to utilize approximately \$22,006,730 in proceeds to support the project. **All financial obligations associated with the loan are expected to be repaid from annual revenues generated by the City's Resource Recovery enterprise operations.**

It should also be noted that, pursuant to Iowa Code Section 384.24, the proposed borrowing qualifies as an essential corporate purpose because the project involves the "acquisition, construction, reconstruction, extension, improvement, and equipping of works and facilities useful for the collection, treatment, and disposal of sewage and industrial waste in a sanitary manner, for the collection and disposal of solid waste, and for the collection and disposal of surface waters and streams." **As an essential corporate purpose, the issuance is not subject to a mandatory or reverse referendum.**

#### **ALTERNATIVES:**

1. Set May 26, 2026, as the date of public hearing to authorize the issuance of Essential Corporate Purpose General Obligation Loan Agreement in an amount not to exceed \$24,000,000.
2. Reject or delay the public hearings and provide direction related to the financing and funding of the R3C project.

#### **CITY MANAGER'S RECOMMENDED ACTION:**

**Prior to the issuance of debt, Iowa law requires the City to hold a public hearing. A hearing date is therefore proposed to be set prior to authorizing the use of General Obligation Loan agreement to finance the R3C project.**

In addition, the financing plan developed by the City's financial consultant includes the use of Bond Anticipation Notes (BANs) during the construction phase. **As modeled, this financing structure results in the lowest overall impact on tipping fees, thereby minimizing the financial impact on customers.** Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as described above.