



CITY OF BANNING STAFF REPORT

TO: CITY COUNCIL

FROM: Robert Fisher, Acting City Manager

PREPARED BY: Art Vela, Public Works Director

MEETING DATE: July 8, 2025

SUBJECT: Consideration of Resolution 2025-109, Authorizing the Submission of an Application to the California Infrastructure and Economic Development Bank for Financing for the Wastewater Treatment Plant and Recycled Water Upgrades Project

RECOMMENDATION:

Adopt Resolution 2025-109.

BACKGROUND:

The City's Wastewater Fund has several pending capital projects, including the Wastewater Treatment Plant ("WWTP") Upgrades Project (the "Project") to comply with nitrogen removal regulations and allow the WWTP to achieve tertiary treatment (producing Title 22 recycled water which can be used to offset potable water demands).

The estimated cost of the Project is \$64,778,302. To address this cost, the City plans to utilize a variety of funding sources. The Wastewater Fund has cash and reserves, and City staff have identified approximately \$19 million of those reserves for the Project. Additionally, City staff have been applying for a variety of grants in an attempt to offset the cost of the project to the City's ratepayers. The City has been awarded a \$16 million United States Bureau of Reclamation WaterSMART Grant ("USBR Title XVI Grant") for this water recycling project. The City is in the process of negotiating the grant agreement for the USBR Title XVI Grant. Staff expect to bring a separate resolution to City Council related to this grant at the July 8th City Council meeting.

As illustrated in the table below, after applying a portion of the Wastewater Fund's reserves and the USBR Title XVI Grant receipts, there is a remaining funding need of approximately \$25 million for the Project. City staff have been working with NHA Advisors, LLC, the City's Municipal Advisor to evaluate potential funding sources to meet this remaining \$25 million need.

Funding Source	Estimated Funding Source Balance on 7/1/2025	Amount to be Allocated to WWTP Project
Fund 661 - Water Improvement Fund	\$3,632,861.34	\$3,085,000
Fund 680 - Wastewater Operation Fund	\$7,991,840.23	\$1,773,726
Fund 681 - Wastewater Improvement Fund	\$11,035,587.18	\$6,500,000
Fund 682 - Tertiary Fund	\$8,375,653.38	\$9,725,000*

Fund 683 - BUA Wastewater Fund	\$2,500,000	\$2,500,000
FY 2024 Title XVI Program Funds	\$16,194,576	\$16,194,576
Other Funding (IBank Loan or Revenue Bonds)	\$25,000,000	\$25,000,000
	TOTAL	\$64,778,302

Two primary funding sources evaluated are the issuance of municipal bonds or entering into a long-term loan with IBank. IBank provides loans to public agencies throughout the State of California through a loan program whereby IBank issues bonds to raise the funds and then provides those funds to public agencies through a direct loan.

The IBank program provides different rates to each borrower depending on that borrower's term and interest rate. Holding all else constant, shorter-term to a higher rated borrower would have a lower interest rate compared to a longer-term loan to a lower-rated borrower. The City's Wastewater Fund has no outstanding publicly-issued debt and so has no current credit rating. However, IBank staff have indicated that they can use the Water Fund's existing "A+" credit rating as a proxy for the Wastewater Fund, after making a 1-notch downward adjustment. Accordingly, IBank would consider a potential loan to the City to be in the "A" category and would set the City's interest rate accordingly.

Importantly, IBank offers interest rate subsidies to certain qualifying borrowers. IBank staff have notified the City's team that since the City is a disadvantaged community ("DAC"), the City may be eligible for a median household income subsidy and an unemployment rate subsidy. Each of these subsidies can reduce the IBank interest rate by 0.25%, and when combined can reduce the IBank interest rate by a total of 0.5% compared to an IBank rate on a loan without those subsidies.

Because an IBank loan is a private loan to a State entity, there is no public sale and no disclosure document required from the City. Instead, IBank has their own evaluation and credit underwriting process that will commence in earnest once the City submits an executed copy of the contemplated Borrowers Resolution.

By comparison, a publicly-issued revenue bond would require the City engage disclosure counsel to draft a preliminary official statement, which would contain all of the material facts and information needed by a prudent investor to make a decision whether or not to buy wastewater revenue bonds issued by the City. Additionally, the City would need to secure a credit rating on any issuance of wastewater revenue bonds.

Because IBank funds come from a bond issue, the majority of the terms and conditions on an IBank loan are similar to a revenue bond issuance, with a few notable exceptions, as outlined in the table below. In addition to the two options discussed below, the City looked into a potential State Revolving Fund ("SRF") loan and a potential federal Water Infrastructure Finance and Innovation Act ("WIFIA") loan. The process of securing funds from each of these loan programs is lengthy (from 18-24 months), and are not expected to deliver funds by the City's anticipated start date of the project.

	IBank Loan	Revenue Bonds
Limitation on loan sizes	\$65M (Currently)	None
Intended Project Phase	Construction Primarily	Planning through construction
Maximum % of Project Funded	100% (up to \$65M)	100%
Maximum Term	30 years	30 years
Structuring Flexibility	Level Debt Service Only	Flexible ("Wrap Around")
Timing from Start to Funding Date	~6 months	~4 months

Prepayment without Penalty	Not for 10 years (non-negotiable)	Typically, 10 years (negotiable)
Estimated Interest Rate (As of 6/20/25)	20-year: 4.12%* 30-year: 4.60%*	20-year: 4.33%* 30-year: 4.80%*

*All interest rates shown are indicative based on market interest rates on 6/20/2025 and are subject to change. The IBank rates shown reflect the net rate after adjusting for the 0.15% annual loan servicing fee and the median household income and unemployment subsidies of 0.5%.

JUSTIFICATION:

Based on the indicative interest rates in the table above, annual debt service payment on an IBank loan is estimated to be \$1.85 million for a 20-year loan and \$1.54 million for a 30-year loan, as shown in the table below. These amounts are compared to a similarly-structured revenue bond, assuming an “A” credit rating.

Estimated Annual Debt Service	IBank Loan	Revenue Bonds
20-Year Loan	\$1.85 million	\$1.89 million
30-Year Loan	\$1.54 million	\$1.59 million

Because of the potential savings to the City through an IBank Loan that has both the median household income and unemployment rate interest rate subsidies, City staff believe that IBank provides a lower cost funding source than issuing a revenue bond. Over the term of a 20-year loan, the City could see \$820,000 in cumulative cashflow savings, compared to a revenue bond. Over a 30-year period, the City could see \$1.3 million in cumulative cashflow savings compared to a revenue bond.

The Borrower’s Resolution attached to this staff report authorizes City staff to proceed with the IBank application process with a goal of finalizing an IBank Loan. The Borrower’s Resolution identifies a not-to-exceed amount on the IBank Loan, which is commonly set to an amount slightly higher than the final anticipated loan size to provide flexibility. In the draft Resolution, the not-to-exceed amount is \$30 million, even though the anticipated loan size is closer to \$25 million.

In addition to setting the not-to-exceed amount, the Borrower’s resolution declares the City’s official intent to reimburse itself for previously incurred capital expenditures with the proceeds of tax exempt bonds. Because an IBank loan or a wastewater revenue bond would be issued as tax exempt debt, the City is required to make such a declaration of an intent to reimburse. Doing so gives the City the option to reimburse itself from the loan or bond proceeds for costs paid up to 60 days prior to the adoption of the resolution. It is common practice to adopt a similar resolution early on to maximize the City’s flexibility to reimburse itself from future loans or bonds. The notice of intent included in the Borrower’s Resolution would also serve as a reimbursement resolution should the City instead issue revenue bonds.

Most notably, the borrower’s resolution empowers City staff, but does not obligate the City to enter into any loan should the Project timing, amount, or IBank loan rates change significantly. City staff will continue to work with NHA Advisors to evaluate funding options and, up until a loan is presented to the IBank Board of Directors for funding approval, the City will retain the option to pursue other funding sources if a cheaper source is found.

Upon submission of a complete application packet and executed Borrower’s Resolution to IBank, Staff estimate that the City can close an IBank loan within approximately 3-6 months.

FISCAL IMPACT:

As discussed, based on current (6/20/25) market rates, the annual debt service payment on a 20-year IBank loan is estimated at \$1.85 million per year and the annual debt service payment on a 30-year IBank loan is estimated at \$1.54 million per year. This annual debt service is expected to commence in fiscal year 2026-27. There is an annual 0.15% loan servicing fee due to IBank, but the interest rates quoted are inclusive of that annual fee.

IBank charges a 1% origination fee to cover their costs of credit review, underwriting, and legal counsel. Based on a \$25 million loan, this equates to a \$250,000 fee, payable at closing. This amount can be paid out of the loan amount, or paid by one or more of the funding sources identified above. In addition to IBank's closing day origination fee, the City would have expenses related to its own legal counsel and municipal advisor. These closing day amounts would be payable in fiscal year 2025-26 if the City elects to pay the closing costs from the City's wastewater funding sources.

ALTERNATIVES:

Do not approve and provide direction to staff, such as pursuing other funding options.

BUDGETED?:

No

CONTRACT/AGREEMENT:

No

ATTACHMENTS:

1. [Resolution 2025-109.docx](#)