

ITEM #:	43
DATE:	05-26-26
DEPT:	FIN

COUNCIL ACTION FORM

SUBJECT: PUBLIC HEARING AND NOTICE OF INTENT TO ENTER INTO A \$24,000,000 GENERAL OBLIGATION SOLID WASTE DISPOSAL LOAN AGREEMENT FOR RESOURCE RECOVERY & RECYCLING CAMPUS (R3C)

BACKGROUND:

The City is in the process of constructing a new Resource Recovery & Recycling Campus (R3C) to transfer solid waste from Ames to the Carroll County Landfill. The R3C will also handle recyclable materials and yard waste.

As part of the project's financing strategy, staff is recommending the use of Bond Anticipation Notes (BANs) to provide interim financing during construction. BANs are short-term financing instruments 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 permanent 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 the timing and structure 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 likely would 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 additional implementation period provides the utility with more time to align revenues with projected operating and debt service requirements.**

In addition, 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. Financial modeling indicated that, absent the use of BAN financing, substantially larger rate increases likely would have been necessary beginning in FY 2026/27.

Based on the bids received and the financial plan established for the project, the City is expected to utilize approximately \$22,006,730 in loan proceeds for project costs. **All financial obligations associated with the borrowing are expected to be repaid from annual**

revenues generated by the City's Resource Recovery enterprise operations.

Pursuant to Iowa Code Section 384.24, the proposed borrowing qualifies as an essential corporate purpose because the project involves the acquisition, construction, and equipping of facilities for the collection and disposal of solid waste. As an essential corporate purpose borrowing, the issuance is not subject to a mandatory or reverse referendum.

On May 19, 2026, the City Council set May 26, 2026, as the date for the public hearing and additional action related to the proposed loan agreement. **After the public hearing is closed, staff is recommending that the Council adopt a resolution directing staff to take additional action necessary to enter into the loan agreement, including authorization of a term sheet and the setting of a date and time for the receipt of financing proposals.** The term sheet functions similarly to bid response, by establishing the structure and terms necessary for the City to evaluate financing proposals and determine the lowest-cost borrowing alternative.

In an attempt to obtain the lowest cost alternative, the staff has attempted to contact and issue a term sheet to all local lending/financial institutions, although not all intuitions are expected to respond to the request.

Financing proposals are due to be submitted to the City's financial advisor by 10:00 a.m. on June 9, 2026. Staff, in conjunction with the City's financial advisor, will evaluate the proposals and present the results to the City Council at its meeting later that evening. Staff will also recommend the lowest-cost financing alternative and, if directed by the Council, return on June 23, 2026, with the final loan agreement for approval. This schedule is intended to allow for a closing and funding date of June 30, 2026, the final day of FY 2025/26.

ALTERNATIVES:

1. Authorize the issuance of a General Obligation Solid Waste Disposal Loan Agreement in an amount not to exceed \$24,000,000 and the use of the term sheet to determine the lowest cost borrowing alternative.
2. Do not authorize the issuance of a General Obligation Solid Waste Disposal Loan Agreement for the R3C and provide additional direction related to the funding of the R3C.

CITY MANAGER'S RECOMMENDED ACTION:

Prior to the issuance of debt, state law requires that a public hearing be held. This is a necessary step to enact the financial plan for the construction of the R3C as developed by the City's financial consultant. This plan included 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.