ITEM #:	**48**
DATE:	**06-09-26**
DEPT:	**FIN**

COUNCIL ACTION FORM

SUBJECT: AWARD OF GENERAL OBLIGATION LOAN AGREEMENT IN AN AMOUNT NOT TO EXCEED $24,000,000 TO FINANCE THE 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. T**his 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.

In an attempt to obtain the lowest cost alternative, staff has attempted to contact and issue a term sheet to all local lending/financial institutions, although not all institutions 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 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. Approve the resolution awarding the loan agreement to the lender providing the lowest overall borrowing cost.

2. Approve the resolution awarding the loan agreement to a lender other than the lowest-cost borrowing option.

3. Do not approve the resolution and provide additional direction regarding the financing and funding strategy for the Resource Recovery & Recycling Campus (R3C).

CITY MANAGER'S RECOMMENDED ACTION:

Securing financing for the construction of the R3C requires the City to identify and select the lowest-cost borrowing option through the loan agreement procurement process. Awarding the loan agreement to the proposer offering the most favorable financing terms will help minimize borrowing costs while ensuring funding is available for the project. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as described above.