

ITEM #:	16
DATE:	06-23-26
DEPT:	FIN

COUNCIL ACTION FORM

SUBJECT: RESOLUTION APPROVING AN INTERFUND LOAN FROM THE ELECTRIC FUND TO THE RESOURCE RECOVERY FUND

BACKGROUND:

The City is currently in the process of constructing the Resource Recovery & Recycling Campus (R3C). To date, the City has incurred project-related expenditures associated with land acquisition, engineering, design, permitting, and other pre-construction activities. Additional project expenditures will continue to be incurred prior to the issuance of permanent financing.

On June 9, 2026, the City received proposals from four financial institutions for the lending of \$24,000,000 General Obligation Solid Waste Disposal Bond Anticipation Notes (BANs) to finance the project. Following a review of the proposals, PFM Financial Advisors, in consultation with staff, determined that the interest rates received were higher than anticipated and estimated that utilizing BAN financing would increase borrowing costs above original estimates.

As a result, PFM recommended that the City finance the project through its regularly scheduled General Obligation bond issuance planned for August 2026, with bond proceeds anticipated to be delivered in September 2026. **Based on this recommendation, the City Council elected not to award a financing agreement for the BAN issuance and instead directed staff to include the R3C project financing as part of the City's upcoming General Obligation bond sale.**

INTERFUND LOAN:

While permanent financing is expected to be available in September 2026, the Resource Recovery Fund requires temporary financing to reimburse expenditures already incurred and to provide adequate cash flow for ongoing project costs. Staff estimates that up to \$7,100,000 will be required during this interim period.

Interfund loans are a common municipal financing practice utilized by Iowa local governments to address temporary cash flow and project financing needs. Iowa Code provides the authority to local governments to transfer resources between funds and provides the statutory framework under which these transactions occur. When a project has an identified repayment source, interfund loans provide an efficient and cost-effective alternative to external short-term borrowing.

The Electric Fund currently maintains sufficient available cash reserves to provide temporary financing without negatively affecting utility operations, capital projects, or reserve levels. Accordingly, staff recommends approval of an interfund loan in the

amount of up to \$7,100,000 from the Electric Fund to the Resource Recovery Fund.

The proposed loan will bear interest at a rate of 3.60% per year, which approximates the earnings currently being received on City deposits held at First National Bank. As a result, the Electric Fund will receive substantially the same financial benefit it would have earned had the funds remained on deposit, ensuring that electric utility customers are not disadvantaged by the temporary use of Electric Fund cash reserves.

The interfund loan is intended solely as a short-term financing mechanism until permanent project financing is secured through the City's planned General Obligation bond issuance. Upon receipt of bond proceeds, anticipated in September 2026, the Resource Recovery Fund will repay the Electric Fund in full, including accrued interest.

The proposed interfund loan does not increase the overall cost of the project or authorize additional project expenditures. Rather, it provides a temporary source of liquidity that allows the project to continue moving forward while preserving the City's ability to utilize the lowest-cost long-term financing option identified by PFM Financial Advisors.

The final amendment to the City's FY 2025/26 budget, approved by the City Council in May, projected an ending fund balance of \$43.4 million in the Electric Utility Fund. In accordance with the City's fund balance reserve policy, \$20.3 million of this amount is designated as reserve, leaving approximately \$23.1 million available above the established reserve requirement. Additionally, as of June 17, 2026, the utility's cash and investment balance totaled \$52.1 million. Based on this information, the Electric Utility Fund is in a strong position to provide the proposed interfund loan while continuing to maintain adequate reserves and liquidity.

ALTERNATIVES:

1. Approve the resolution authorizing an interfund loan in the amount of up to \$7,100,000 from the Electric Fund to the Resource Recovery Fund.
2. Do not approve the resolution and provide alternative direction regarding the interim financing of R3C project expenditures.

CITY MANAGER'S RECOMMENDED ACTION:

The City initially pursued Bond Anticipation Note (BAN) financing for the R3C project. However, proposals received from lenders resulted in borrowing costs that were higher than anticipated. Following a review of the proposals, PFM Financial Advisors recommended that the City instead include the project in its planned September 2026 General Obligation bond issuance as the lowest-cost financing option.

Approval of the proposed interfund loan will provide the necessary interim financing to fund project expenditures until bond proceeds are received, while ensuring that the Electric Fund receives interest earnings comparable to those currently available through its existing investments. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as described above.