ITEM #:	**35**
DATE:	**08-25-26**
DEPT:	**FIN**

COUNCIL ACTION FORM

SUBJECT: RESOLUTION FIXING DATE FOR A MEETING ON THE AUTHORIZATION OF A LOAN AND DISBURSEMENT AGREEMENT AND THE ISSUANCE OF NTE $53,930,000 ELECTRIC REVENUE BONDS FOR SEPTEMBER 8, 2026

BACKGROUND:

The City is moving forward with the financing of the new thermal generation project for the Ames Municipal Electric Utility. The project includes the purchase and installation of new reciprocating internal combustion engine (RICE) generation units, along with the associated site, electrical, mechanical, and other construction improvements necessary to place the new generation resources into service.

The financing currently proposed represents the first phase of a larger financing plan for the project. Since the project was initially presented to the City Council in April, the proposed financing strategy has been revised as additional information regarding final equipment costs, contractual payment requirements, and the overall construction schedule has become available.

On April 21, 2026, PFM Financial Advisors LLC presented a financial analysis of the proposed RICE generation project to the City Council. The presentation reviewed the changing regional electric utility environment, the City's evolving power supply portfolio, anticipated operating savings from the project, projected electric rate requirements, and a preliminary financing strategy.

The preliminary financing strategy developed earlier in the project relied heavily on short-term construction financing during the construction period, followed by one large long-term Electric Revenue Bond issue. Under the original plan, the City anticipated the following:

- A draw-down construction loan beginning in 2027
- A single, approximately $190 million Electric Revenue Bond issuance in 2029 to repay the construction loans and finance the remaining project costs.

The purpose of the original structure was to use draw-down construction financing during the early stages of the project so the City would borrow funds only as they were needed and could gradually transition into the full annual debt-service requirement.

The April analysis also assumed approximately 2.5% annual electric rate increases from FY 2026/27 through FY 2044/45, followed by approximately 1.5% annual increases thereafter.

To accomodate the borrowing needs of the project, Electric Services staff has now developed a more complete monthly construction schedule through October 2030. That schedule currently identifies approximately $192,663,000 in total project construction costs, with significant expenditures occurring before the construction financing contemplated in the original plan would have been available.

The estimated expenditures by fiscal year are:

Fiscal Year	Construction Costs
FY 2025/26	$ 424,000
FY 2026/27	43,457,000
FY 2027/28	16,176,000
FY 2028/29	88,317,000
FY 2029/30	41,174,000
FY 2030/31	3,115,000
Total	**$192,663,000**

These earlier and more clearly defined payment requirements caused staff and PFM to reconsider the original financing structure. Under the new recommended plan, the City would finance the project through a combination of Electric Revenue Bonds and a construction draw-down loan issued as the project progresses:

Financing	Timing	Project Funding
Electric Revenue Bonds	October 2026	$50,533,000
Electric Revenue Bonds	March 2028	$71,550,000
Construction Draw-Down Loan	April 2029	$70,580,000
Electric Revenue Bonds to repay 2029 construction loan	October 2030	$70,580,000

The primary difference from the original financing strategy is that the City would now issue long-term Electric Revenue Bonds earlier in the construction process rather than relying primarily on construction loans until a single, large 2029 bond issue.

This revised approach better matches the City's borrowing with the actual contractual payment schedule and known construction cash flows. PFM estimates the total all-in financing cost of the new recommended plan at approximately $341.2 million, including principal, interest, underwriting discount, and costs of issuance.

PFM also evaluated an alternative plan that more closely aligned with the original financing strategy. Based on revised schedule, the plan would have relied more heavily on construction loans in 2026 and 2029 before refinancing those loans with Electric Revenue Bonds. The estimated all-in financing cost of that alternative is approximately $392 million.

PFM therefore recommends the new phased Electric Revenue Bond approach because:

- It is estimated to reduce total financing costs by approximately $50.75 million compared with the construction-loan alternative
- Maximum annual debt service increases by only approximately $200,000
- The financing can still be accomplished within the 2.5% annual electric rate increases previously modeled for the project.

The action staff is requesting is only in relation to the first financing phase of the project, as noted above. This phase is intended to provide approximately $50,533,000 of project funding, primarily for the RICE engines and other project construction costs anticipated through approximately February 2028. It should be noted that the issuance also includes $827,000 in issuance costs, for a total of $51,360,000.

Although the current preliminary bond amount is approximately $51,360,000, the proposed public hearing authorization establishes a principal amount not to exceed $53,930,000. The not-to-exceed amount provides flexibility for changes in market conditions, final bond sizing, required reserves, issuance costs, and other financing adjustments before the bonds are sold.

If approved, the bonds would be expected to close on October 29, 2026, with a 30-year amortization schedule.

Current estimated annual debt service is approximately:

- $1.51 million in FY 2026/27
- $2.57 million in FY 2027/28
- Approximately $3.44 million to $3.45 million annually thereafter

Principal payments are currently expected to begin in 2029, with final maturity in 2056. The Series 2026D Bonds would be Electric Revenue Bonds payable from the net revenues of the City's Electric Utility. **They would not be General Obligation Bonds and would not be supported by the City's property tax levy.**

The City's approximately $9.5 million of outstanding Electric Revenue Bonds issued in 2015 are currently rated Aa2 by Moody's Ratings. PFM does not expect the City to finance the entire $192 million thermal generation project without some pressure on the Electric Utility's revenue bond rating.

Susanne Gerlach of PFM Financial Advisors is expected to be in attendance at the meeting on Tuesday evening to review the revised financing plan with the City Council. She will also discuss the Moody's rating process, the rating scorecard, factors that could affect the electric revenue bond rating, and the potential financial impact of the various rating outcomes.

Following a review of the financial plan, and if approved by the City Council, staff will request the City Council approve a resolution establishing September 8, 2026 as the date for the public hearing on the proposal to enter into an Electric Revenue Loan Agreement and borrow money thereunder in a principal amount not to exceed $53,930,000, and would authorize publication of the required notice.

No bonds will be sold as a result of the August 25 action. The action establishes the public hearing and allows staff, PFM, and bond counsel to continue preparing for the proposed Series 2026D financing.

ALTERNATIVES:

1. Adopt a resolution fixing September 8, 2026 as the date for a public hearing on a proposal to enter into an Electric Revenue Loan Agreement and to borrow money thereunder in a principal amount not to exceed $53,930,000.

2. Do not adopt the resolution and direct staff to modify or delay the proposed financing schedule.

CITY MANAGER'S RECOMMENDED ACTION:

Since PFM's initial presentation to the City Council on April 21, 2026, the City has received final RICE engine pricing and a detailed construction and progress-payment schedule. This additional information demonstrated that the timing of project expenditures occurs significantly earlier than contemplated in the original financing plan.

PFM has recommended replacing the original construction loan-based financing strategy with a phased financing plan that begins with Electric Revenue Bonds in 2026 and 2028, uses a construction draw-down loan for the final phase of construction in 2029, and converts that loan to long-term Electric Revenue Bonds following completion of construction.

PFM estimates that this revised approach will reduce total financing costs by approximately $50.8 million compared with the alternative revised financing structure, while increasing maximum annual debt service by only approximately $200,000 over a shorter duration. The revised plan also remains within the 2.5% annual electric rate increases previously modeled for the project.

Setting the public hearing at this time will allow the City to proceed with the first phase of the revised financing plan and maintain the anticipated October 29, 2026 closing. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as described above.

ATTACHMENT(S):
PFM Recommendation.pdf