THE CITY OF PLEASANTON

MEMORANDUM

Date: May 10, 2023

To: Mayor and City Council

From: Gerry Beaudin, City Manager
Susan Hsieh, Finance Director

Subject: City of Pleasanton Water Improvement Project Financing Options

The objective of this memo is to provide the City of Pleasanton with its capital improvement financing options. Like most clean water service providers, the cost to upgrade and modernize infrastructure projects is too great to accomplish with funds on hand. The City has asked PFM to review three funding alternatives: publicly sold debt (bonds), a state subsidized loan through the California State Water Resource Control Board (SRF), and a below market rate loan through the California Infrastructure and Economic Development Bank (IBank).

The memo contains three sections - alternatives, timing, and costs. The alternatives overview section discusses the basic information of each alternative: purpose, process, and post-issuance administration. In the second section, we show the time it takes from making a recommendation to having funds on hand. In the final section, we compare the annual average debt service and total debt service between the alternatives.

ALTERNATIVES

Revenue Bonds: Revenue bonds are typically debt instruments in which an investor loans money to a governmental entity (the issuer) in exchange for a dedicated revenue stream related to the entity's business enterprise (i.e. water, sewer collection, sewer treatment). The debt is typically paid back at a fixed interest rate over 20 to 30 years. Investor and credit considerations drive the financial terms of the bonds, typically to bring down borrowing costs. It is a 3-6 month process to issue revenue bonds, which can be sectioned into five broad steps: debt capacity analysis, structuring, legal and disclosure document adoption, credit review, and sale. The financing team assists the city in accomplishing these steps. Publicly sold debt has annual federal and state financial disclosures requirements that will remain as long as the bonds are outstanding.

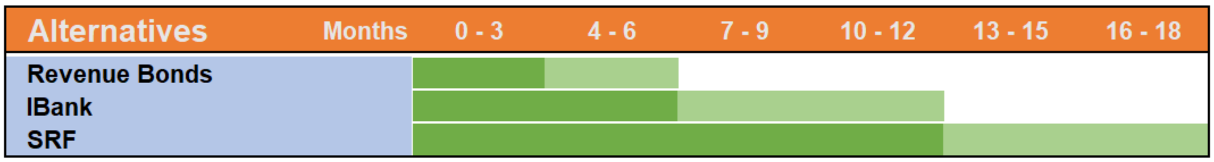
IBank: The California Infrastructure and Economic Development Bank (IBank) is a state-run program that finances public infrastructure and private development projects within the state to support infrastructure and economic development. The IBank offers below-market interest rate loans ranging from $50,000 to $25 million to state and local entities for a wide variety of projects, including water and wastewater treatment plant upgrades or construction. It uses a proprietary formula to set their borrowing rate, so it's unknown at this time what interest rate they are offering. The loans can finance up to 100% of the project. It is a 6 - 12 month process to secure a loan. The program requires borrowers to report annual operating and financial information.

California State Water Resource Control Board (SRF): The California State Water Resource Control Board administers financial assistance, including loans and grants, to local government to fund water and wastewater projects. The Board manages two revolving loan funds, the Clean Water State Revolving

Loan Fund and the Drinking Water State Revolving Loan Fund. The Board offers subsidized loans and can finance up to 100% of the project. There is not a maximum borrowing limit, but funds are subject to availability. The application process for a loan is about 12-18 months. The program requires borrowers to report annual operating and financial information.

TIMING

The Gantt Chart below shows the average time it takes from initial borrowing discussions to funding (money in the bank). For example, the average financing time lime for a revenue bond is 3-6 months. Given the importance of matching revenues with project schedules in a capital improvement plan, the time it takes to obtain funding is an important consideration. Also, a longer process adds to interest rate uncertainty, which affects cost.



COSTS

This section covers the average annual debt service and total debt service costs for debt issuances to fund project costs of $30 million, $40 million, and $50 million for the three funding alternatives. [1]

The table below summarizes the primary assumptions we used to structure the financings.

	Alternatives		
	Revenue Bonds	IBank	SRF[2]
Repayment Term	30 Years	30 Years	30 Years
Effective Interest Rate	4.39%	3.58%[3]	2.15%

Average Annual Debt Service: The table below shows that the annual average debt service for a revenue bond to fund a $30 million project is approximately $1.95 million. To fund the same project through an IBank or SRF loan, the annual average debt service would be $1.76 million and $1.45 million, respectively.

	Average Annual Debt Service		
	Revenue Bonds	IBank	SRF
Project Fund			
$30 million	$1,952,826	$1,757,950	$1,445,139
$40 million	$2,598,277	$2,340,056	$1,923,695
$50 million	$3,243,517	$2,922,109	$ 2,402,172

[1] Assumptions: Interest rate cushion; cost of issuance, including origination costs or underwriters discount where applicable; Debt service reserve fund.

[2] Assumes complete drawdown of the loan at closing.

[3] Educated estimate.

Total Debt Service: The table shows that the total debt service for a revenue bond to fund a $30 million project is approximately $58.4 million. To fund the same project through an IBank or SRF loan, the total debt service would be $52.6 million and $43.2 million, respectively.

	Total Debt Service		
	Revenue Bonds	IBank	SRF
Project Fund			
$30 million	$58,422,063	$52,592,004	$43,233,744
$40 million	$77,734,771	$70,006,648	$57,550,532
$50 million	$97,035,229	$87,419,752	$71,864,988

Next Steps

The City's decision to utilize one or more of these approaches will depend on a variety of factors, including costs and timing. We recommend that we arrange a discussion of this memo to walk through the alternatives and their fit for Pleasanton's specific needs. We look forward to that discussion and to providing any further clarity on the choices and their implications.