



Staff Report

File #: 17-113

Version: 1

Date: 3/27/2017

Item #: 3.2a.

TO: Mayor and City Council

THROUGH: Steve Powers, City Manager

FROM: Kacey Duncan, Deputy City Manager

SUBJECT:

Transfer of Appropriations for Utility Fund Debt Prepayment

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

ISSUE:

Shall the City Council adopt Resolution No. 2017-25, authorizing the transfer of \$4,800,000 in appropriations within the Utility Fund from contingencies to debt service for the purpose of debt prepayment?

RECOMMENDATION:

Adopt Resolution No. 2017-25, authorizing the transfer of \$4,800,000 in appropriations within the Utility Fund from contingencies to debt service for the purpose of debt prepayment.

SUMMARY AND BACKGROUND:

The City's budget needs to respond to unforeseen changes. State law allows the City Council to authorize transfers of appropriations within a fund within the appropriation limits established by the City's adopted budget.

City Council is being asked to authorize a transfer within the Utility Fund that will allow for increased appropriation authority within the debt service category for the purpose of prepaying the remaining balance of the 2009 Oregon Economic and Community Development Department (OECD Business Oregon) Loan.

If the transfer of appropriation is approved, prepayment will occur on April 11, 2017. The prepayment will result in net present value savings of approximately \$1.98 million.

FACTS AND FINDINGS:

The Finance Division works with departments to actively manage the City's debt portfolio based on Council Policy C-2, and it periodically makes recommendations to reduce the cost of borrowing when options become available. The Utility Fund is currently paying debt service on three outstanding loans. Loan options generally include prepayments or refinancing when there is an opportunity to reduce interest expense and/or shorten maturity dates.

The 2009 OECD Business Oregon Loan is currently the Utility Fund's longest duration and highest interest debt obligation, with final maturity in 2033. The loan became eligible for prepayment in 2017, with a 2% of principal premium assessed at the time of prepayment. The FY 2016-17 scheduled debt service payment of \$400,599 took place on December 1, 2016, leaving a balance of \$4,621,139.

Prepayment options for the loan were discussed with the Water/Wastewater Task Force in 2016, as well as during the Utility Fund rate proposal this past fall. Because a prepayment plan for this debt was not fully resolved at the point of FY 2016-17 budget development, contingency in the Utility Fund was augmented for the loan payoff. Resolution No. 2017-25 would authorize a transfer of appropriations to the debt service category for the prepayment. The payoff includes:

Loan Balance:	\$4,621,139.00
Net Accrued Interest:	78,121.85
Pre-payment Fee (2% of loan balance):	<u>92,422.78</u>
Total Prepayment:	<u>\$4,791,683.63</u>

Attachments:

1. Resolution No. 2017-25