

Staff Report

File #: 20-398

Version: 1

Date: 10/26/2020

Item #:

TO: Mayor and City Council
THROUGH: Steve Powers, City Manager
FROM: Robert Barron, Chief Financial Officer

SUBJECT:

Internal Borrowing from the City's Utility Fund to the General Fund for Civic Center Campus Improvements

Ward(s): Ward 1

Councilor(s): Kaser

Neighborhood(s): CANDO

Result Area(s): Good Governance; Safe, Reliable and Efficient Infrastructure

ISSUE:

Shall the City Council adopt Resolution No. 2020-46, approving an internal borrowing from the City's Utility Fund to the General Fund for capital improvements at the Civic Center Campus in an amount not to exceed \$3,463,000?

RECOMMENDATION:

Adopt Resolution No. 2020-46, approving an internal borrowing from the City's Utility Fund to the General Fund for capital improvements at the Civic Center Campus in an amount not to exceed \$3,463,000.

SUMMARY:

Numerous projects at the Civic Center Campus, including deferred maintenance, require immediate attention to improve the safety and function of the buildings. Due to the level of funding needed and the timely nature of the projects, staff recommends an internal borrowing from the Utility Fund to the General Fund for these projects. Since the pandemic has caused many City departments to pivot to operate virtually, the City is in a unique position to accomplish these projects with less disruption to City operations and displacement of employees at the Civic Center Campus.

FACTS AND FINDINGS:

The Utility Fund is in good fiscal health and due prudent financial management has been able to maintain sufficient balances and reserves to meet the requirements of Council Policy C-14, the Utility Fund Financial Policy. Due to the nature of the services provided, the Utility Fund has maintained unrestricted reserves which have been used in recent years for other internal borrowings. These funds are immediately available for the projects at Civic Center at competitive rates and favorable terms. The Utility is still able to meet debt coverage and reserve requirements while the debt service payments that the Utility receives approximates the interest it would receive if the funds remained in the City of Salem's investment portfolio. The interest rate for the borrowing (as specified by Council Policy C-2) is .50% above the prior years combined portfolio rate and is set at 2.69% for the first year. The loan will be paid back over a 10-year term with an annual payment of \$393,115 (adjusted annually for investment returns). This internal loan was identified as a need during budget development for fiscal year 2021 and is included in the budgets for both the General Fund and the Utility Fund. There is no anticipated delay or disruption in Utility funded projects as a result of this internal loan.

During the budget development process, several improvement projects were identified as priorities for ongoing operations at the Civic Center Campus. These projects include:

- Transformer replacement: Civic Center Campus (including the Salem Public Library and City Hall) are powered by nearly 50-year-old transformers that are at the end of their useful life and require replacement and relocation. The project will be done in partnership with Portland General Electric (PGE). PGE will run the power to the new transformers, set the new transformers, and decommission the old transformers.
 - Estimated Cost: \$1,200,000
- Lower parking lot lighting: Upgrades to the existing lighting in the lower parking garage of City Hall will improve energy efficiency and increase visibility. This project will decrease the number of light fixtures and increase the number of lumens. This project is eligible for Energy Trust of Oregon incentives that will offset the cost of this project, but the amount of reimbursement is unknown at this time.
 - Estimated Cost: \$75,000
- Civic Center elevator modernization: The old elevators at City Hall and the Salem Public Library have experienced active leaks and critical component failures. Upgrades are needed to the elevator systems to preserve functionality and meet current safety standards.
 - Estimated Cost: \$630,000
- Civic Center First Floor Reconfiguration: The Police Department will vacate the first floor of City Hall with their move to the new Police Station this fall. The use of the space will be reimaged and repurposed for occupancy by other City departments. This initial funding will allow the City to begin design and construction of the project.
 - Estimated Cost: \$958,000
- Civic Center Security Installation: As the Police Department relocates to their new facility, this

funding allows for enhanced physical security at the Civic Center Campus.

- Estimated Cost: \$600,000

This debt issuance was incorporated in the FY 2021 budget and requires no additional budget authority.

On September 28, 2020, a report was provided to the City's Finance Committee asking for a recommendation on the borrowing. Members discussed the borrowing with staff and provided their recommendation to proceed.

BACKGROUND:

Oregon Revised Statue 294.268 allows the City to conduct an internal borrowing between funds for capital projects provided that the funds are repaid within 10 years and that the borrowing is approved by resolution or ordinance. The City of Salem's Council Policy No. C-2 further outlines the City's Debt Management policy, including internal borrowings. In addition to the requirements outlined in ORS 294.268, considerations for an internal borrowing include cost benefit analysis where the rate of interest and borrowing costs from external sources are weighed against the anticipated interest earnings for internal funds, proper budget authority, and whether the borrowing fund can repay the loan.

Per Council Policy C-2, internal borrowings are calculated at an interest rate that is 0.50% above the prior year of the City's combined portfolio rate and are then adjusted annually based on the portfolio. Budget authority is included in the FY 2020-21 adopted budget based on this rate. Attachment 2 of this report provides a draft amortization schedule based on current internal loan rates. Due to the cost of issuance to conduct an external placement of debt, it is less costly to the City to proceed with an internal borrowing for these projects.

Kelli Blechschmidt
Management Analyst I

Attachments:

1. Resolution No. 2020-46
2. Resolution No. 2020-46 Exhibit A, Civic Center Campus Internal Borrowing Amortization Schedule