



TO: Elizabeth Pauli, City Manager
FROM: Andrew Cherullo, Finance Director
Teresa L. Sedmak, City Treasurer
COPY: City Council and City Clerk
SUBJECT: Ordinance Authorizing Financing for City’s Organics to Energy Project through State
Local Agency Lease Financing Program
DATE: April 29, 2020

SUMMARY:

The City’s Environmental Services Department is developing a process which will convert an otherwise wasted resource (bio-gas) into usable energy in the form of clean, renewable natural gas (the “Organics to Energy Project” or the “Project”). This will allow the City to reduce greenhouse gas emissions in order to lessen the impacts of carbon-induced climate change. The Project is forecasted to generate revenues sufficient to repay capital and provide a positive net return over its useful life.

This ordinance (the “Ordinance”) acknowledges that the City executed a Notice of Intent to the Office of the State Treasurer in relation to the acquisition, and financing of certain property, and authorizes the City to obtain project financing through the State’s LOCAL Program, as further described below. The financing amount will be no more than \$12.7 million with a repayment term of 20 years.

Upfront capital costs of the Project include the installation of equipment and improvements to the City’s Central Treatment Plant (“CTP”) such as a processing unit which will convert bio-gas to pipeline-quality methane gas, installing upgrades to digesters and installing a pipeline which will allow for the movement of gas between the CTP and the PSE main line.

The Project is anticipated to be financed through a Local Agency Financing Lease with the Office of the State Treasurer (the “LOCAL Program”) which allows for participants to access financing for equipment and/or real property (including real property improvements and fixtures) investments on a pooled basis. Through this pooled financing approach, each borrower (such as the City) incurs a lower cost of issuance (legal fees, ratings agency fees, underwriting fees, etc.) than it would if it were to issue bonds on its own, as those costs are shared, on a proportionate basis, among all participants in the financing.

It is important to note that participation in the State’s LOCAL Program requires that the **City pledge its full-faith and credit to the repayment of the obligations (a general obligation pledge)**. While the City has excess non-voted limited tax general obligation bonding capacity and is therefore capable of making this pledge without hindering its future bonding ability, **the FINANCING WILL BE REPAYED THROUGH PROJECT REVENUES or other revenues of the wastewater system and not the General Fund**. Specifically, debt service for the Project is expected to be paid by revenues derived from the sale of processed bio-gas and environmental credits related to the Project as it is anticipated that the Project will provide positive cash flow over its useful life. The general obligation pledge is required in order for the State to achieve the strong credit ratings required to achieve low borrowing rates in the credit markets.



STRATEGIC POLICY PRIORITY:

- Strengthen and maintain a strong fiscal management position
- Sustain and Improve Tacoma’s natural environment

BACKGROUND:

The City, in order to reduce carbon pollution and implement clean energy improvements, has been designed and is developing a process through which it may convert an otherwise wasted energy source (bio-gas) into clean renewable natural gas. In addition to reducing greenhouse gasses, the Project is expected to generate revenues through the award of environmental credits along with the sale and utilization of its end product, which can be used interchangeably with natural gas. Those revenues are forecasted to effectively offset project costs and provide a net economic benefit. The Project will be financed through the State’s LOCAL Program.

ISSUE:

In order to finance the cost of the Project, borrowing is required to purchase equipment and improvements required to convert bio-gas into usable energy in the form of clean, renewable natural gas and ultimately allow the City to reduce greenhouse gas emissions, generate revenues sufficient to repay capital and provide a positive net return. It is proposed and recommended that the City finance the Project through the State’s LOCAL Program.

ALTERNATIVES:

1. The City could approve the Ordinance, allowing for costs and expenses related to the Project to be financed through the State’s LOCAL Program.
2. The City could choose not to approve the Ordinance. This would result in the pursuit of an alternate financing arrangement which would likely result in project delays and increased cost of the financing.

RECOMMENDATION:

It is recommended that the City approve the Ordinance, allowing for the costs and expenses related to the Project be reimbursed through the State’s LOCAL Program.

FISCAL IMPACT:

It is important to note that, although the financing will be repaid through Project revenues, the LOCAL program requires a general obligation, full faith and credit pledge from the City. While this pledge is in place, the obligation will be counted against the City’s outstanding general obligation debt for purposes of calculating its authorized debt capacity.