

City of Bethel Action Memorandum

Action memorandum No.	23-14		
Date action introduced:	June 13, 2023	Introduced by:	Peter A. Williams, City Manager
Date action taken:	June 13, 2023	X Approved	Denied
Confirmed by:	LS		

Action Title: Direct City Manager to cut a check (approximate amount of \$2,293,822.54) to First National Bank to pay off the City of Bethel’s interim loan in full that funded part of the Avenues Water and Sewer Improvement project.

Attachment(s): (1) First National Bank Pay Off Estimate dated May 31, 2023, (2) Balance Sheet May 31, 2023 - Water & Sewer Services.

Amount of fiscal impact:	Source	Account information:
\$2,293,822.54	Funds in Water and Sewer Enterprise Fund Balance (Cash in Combined Fund)	510-10100
Route to Department/Individual	Initials	Remarks
Administration	<i>PW</i>	I recommend the City pay off this loan to save money on interest and allow for clean slate if the City pursues grant/loan in the future.
Finance	<i>MM</i>	I recommend City pay off loan.

Summary Statement

The City of Bethel signed a loan agreement with First National Bank to borrow \$8,250,000 at 3.78% interest as an interim project loan and precursor to having the United States Department of Agriculture – Rural Development assume the loan at a lower interest rate for 40 years. The terms of the bank loan require the city to pay interest only on the principal amounts drawn down. The City has drawn down \$2,285,085 (rounded up) in two reimbursement requests made to the bank in 2019 and 2021 and has been paying interest and principal on the draw-down amounts since it received the two loan disbursements. The city would like to pay off this bank loan in its entirety from the May 31, 2023 balance of \$6,135,824 in the water and sewer enterprise fund. The estimated amount to pay off is shown on the attached document from First National Bank.

The City of Bethel used some of its required \$306,000 cash match for the project and interim loan funds to purchase six water haul trucks. The six trucks cost \$1,574,298. The timing of the truck purchase was critical in helping the City meet the Alaska Department of Transportation and Public Facilities “bridge law” axle weight dispersion requirement and allowed the city to continue to provide hauled water services to residents.

Back Story

The City relied on a preliminary engineering report completed in August 2018 to request USDA-RD grant/loan funds to cover the cost of design and construction of providing piped infrastructure to 140 households in the Avenues residential area and the purchase of six water

haul trucks. USDA-RD sent the city a letter of conditions on September 10, 2018 that tentatively approved a grant/loan in the amount of \$13,627,000. Before the city could tap the grant amount of the proposed USDA-RD funding package (\$5,021,000), it had to obtain an interim loan from a commercial bank, spend all the interim loan funds on the project, and then close on a USDA-RD loan to pay off the interim loan. The plan of action described came to an abrupt halt after the city received construction bids that were so high as to render the project infeasible.

Request for Bids Due Date	# of Household Connections	Company	Amount
2/7/2022	140	Ahtna	\$42,092,928
2/7/2022	140	Bethel Services, Inc.	\$48,686,719
Round 2 after scope reduced 40%			
3/14/2023	88	Bethel Services, Inc.	\$35,749,056

City Administration believes the best approach is for the City of Bethel to stop working on the project, put the bid and design documents aside, and pay off the interim loan in full. The design and bid documents will remain valid for five years. The Finance Department confirmed that \$6,135,824 was available on May 31, 2023 in the water and sewer enterprise cash in combined fund to cover the payoff amount.