



SCIO CITY COUNCIL WORK SESSION MINUTES  
MONDAY February 3, 2020

**COUNCIL PRESENT:** Councilors Karen Eckhart, Joey Ferguson, Tom Meyer, Debbie Nuber, and Mayor Chadd Weaver.

**STAFF PRESENT:** City Manager Ginger Allen, Administrative Assistant Cathy Martin.

**CALL TO ORDER:** Mayor Weaver called the Work Session of the Scio City Council to order at 6:00 P.M. at Scio City Hall, followed with the flag salute.

**ROLL CALL:** Roll call was taken with councilors Dennis Thomas and Tom Gray absent.

**OPENING REMARKS:** Mayor Weaver

**COLUMBIA BANK PRESENTATION:** Sharon Guisande, Senior Vice President, Commercial Banking Officer, 5000 Meadows Road, Suite 220 Lake Oswego, OR 97035 -

Ms. Guisande provided handouts to the council regarding questions submitted to her by City Manager, Ginger Allen.

*Q1 – Can additional principal reductions beyond the normal principal and interest payments be made during the loan term?*

Guisande: Up to 15% of the principal amount outstanding can be made in a calendar year.

Allen: Are there early payoff penalties?

Guisande: That can be negotiated, as it depends on the loan structure.

*Q2 – Does having a Professional Project manager managing the project save the City in costs?*

Guisande: By having someone managing the project the city is can eliminate cost overruns and keep the project on time.

Allen: What happens if there is “project creeping”?

Guisande: That this is the same thing as cost overruns, make sure you have someone facilitating, there are costs to add ons.

*Q3 – Financing Structure Options*

Guisande – Two Options: (1) Full faith & credit – up to city to monitor – saving – can do a 2-piece facility – (2) Construction Loans –

Allen – two people doing the same thing, one interest of bank, and one protecting city (Construction Loan) – Full Faith & Credit – only

*Q4 – Typical Amortization*

Guisande – line of credit convert to term loan – during project period, only pay interest on funds that have been used, term out is principle and interest – 10-12 year term maturity – 2 year project – (10) term out for maturity – Do not offer 20-30 year loans, however, they offer 20 year amortization. There is a balance at end of 12 years that would need to be refinanced. The advantage is lower principle/interest payments during the line of credit for project period, then during the term out the city would pay principle and interest. There are no appraisals or environmental reports that add cost to project. City needs structure in place to make sure project runs smooth and funds advanced only go to the project. Anything to do with project (soft or hard costs)

*Q5 – Analysis/Underwriting*

Allen – what criteria did the bank look at to determine that Scio is a good risk?  
Guisande – Columbia Bank is the current bank of the city. Columbia Bank looks at financials, cash flow, ending fund balances, debt service coverage analysis, add new debt request to figure out what is going forward. The City is very conservative. Operating Revenue divided by outstanding debt service. Underwriting can happen within 2 weeks for Full Faith & Credit

*Q6 – When does repayment on the Structures begin?*

Guisande stated that payments begin as soon as facilities in place. With a Line of Credit the city will pay interest only on amount outstanding, the principle begins once termed out. Advances on Line of Credit are made as Construction is completed – specifically for project – invoices, cost overruns, materials – construction manager gathers and submits to bank for payment.

*Q7 – What costs can be incorporated in a potential loan be used for?*

Guisande – It is important to talk to bond council, make sure that everything you want is in there that is supposed to be. Resolutions may need to be passed.  
Allen stated that the city received information from bond council today, and if city moves forward they will make presentation to the council.  
Guisande said it is best to have bond council active in the process.

*Q8 – Describe the interest rate options*

Guisande – Line of Credit – rate is floating – prime rate that floats during the construction period. Once it is finished construction then term loan rate is fixed. – Index, spread and calculation will base the final rate on.  
Term Loan – is a single advance – rate is fixed at that time.  
Allen – can city borrow the whole amount and turn back any excess?  
Guisande – it is possible.

Councilor Gray Arrived at 6:26 pm

*Q9 – Potential Monthly payment – indicative as of today only:*

Guisande reviewed possible payments on borrowing \$1.5M, \$1.75M and \$2M. The loan is usually a % of the value (Loan to Value) – can use land as equity.

\$1.5M – city has little debt, look at current and lay new debt on top of that – (10/20 structure) (rate approximately 2.98%) \$108K annually – total debt \$133K annually – debt service coverage ratio would be 1.86%

Allen - \$11K per month – currently pay \$2,110 per month on the water loan – difference in payments would be about \$9K additional on a \$1.5M loan.

\$1.75M – (10/20 structure) \$127K annually, total debt = \$152K annual with a debt service coverage ratio of 1.61%

\$2.0M – (10/20 structure) \$187K annually, total debt = \$213K annual with a debt service coverage ratio of 1.44%

Guisande stated that Columbia Bank stated that they would look at the DS Ratio – look to see if no lower than 1.25% - is ending fund balance building. City is in good shape

Guisande asked if there were any questions.  
Mayor Weaver asked for council questions

Councilor Eckhart asked that since the project will consist of two different buildings, would this be two different loans.

Guisande stated that it would be one loan.

Councilor Nuber asked if the project funds are inclusive (i.e. exterior, interior, temporary housing costs).

Guisande stated that some of the costs will be up to bond council. Housing will be up to bond council, furnishings can be included. Make sure bond council is on board.

Allen stated that if the council thinks of additional questions, or city members, to let her know and she will send those to Guisande via email.

Allen asked Mike Jaeger, Branch Manager, Stayton, to speak regarding mentioned that Forbes magazine – Columbia Bank is listed as number 12 on the top 100 banks in the US, consider as community bank with technology of the bigger banks.

**WASHINGTON FEDERAL – POWER POINT HANDOUT:** Mayor Weaver asked Ginger Allen to briefly go over, Washington Federal's presentation. Council has received hard copies and answers via email of the same questions asked of Columbia Bank. Ms. Allen read the responses to the questions from Pete Sullivan, VP Relationship Manager – Municipal Lender Commercial Banking.

*1. Can the loan be bought down with principal payments during the life of the loan? We do this with our current water loan.*

Yes – this kind of flexibility is available.

*2. Does having a Professional Project Manager managing the project save the city money?*  
No – we are more concerned about the financial health of the City.

*3. Does having a Full Faith and Credit Loan verses a Construction Loan save the city money?*  
*You may need to explain the difference between the two types of loans.*

Washington Federal doesn't offer construction loans to local governments.

Construction loans are typically for private institutions and require sometime of collateral

(a building) and/or personal guarantee (an individual guarantee). When a local government borrows money to build a City Hall, the pledge is almost always a general revenue pledge (aka Full Faith and Credit pledge). This is a cash flow pledge with no collateral or guarantees.

4. *What are the typical lengths of these loans for this type of project? (20 yrs, 30 yrs, ??? etc.)*  
The typical length of these types of loans is 20 years.

5. *Can you please explain the criteria used by your company when deciding if a loan is a good risk? In other words, they must feel Scio is a good risk or they would not want to do business with us. The public needs to hear this as well as the council.*

We look at the historical cash flow of the City and potential for future cash flow. The City of Scio is a good risk.

6. *When does the city begin paying on the loan?*  
The first payment for the City would be June 2020.

7. *Please explain to the council what it means to get advances on the loan; how long a project can advance cash on a loan, and when the city will be requested to begin making payments? Interest only, Principal only, Principal and Interest???*

Advances could be made on the loan on any business day. The City may do this for up to two years. Payments would be interest only for the two year draw period and made on a semi-annual basis. Principal payments would begin in June of 2022.

8. *Are the projects funds inclusive? In others words will the loan cover the building costs, interior, exterior, and furnishings and the temporary housing cost of city hall during the building process?*

The project funds are inclusive.

9. *How long is an "interest lock" good for on these types of loans?*  
60 days.

10. *Do you assign a bank representative to this project to work with the Project Manager to insure we are not have "project creeping"?*

No – We don't get involved in the project or have any formal contact with the City regarding the projects progress.

11. *What would a monthly payment look like for 1.5 million, 1.75 million and 2 million on a 15, 20 and 30 year loan?*

Please see the table above – and – please remember all the rates are quoted are just an example of what rates may be. This is not an offer to lend money.

Mayor Weaver – asked council to discuss Full Faith & Credit vs Construction Loan  
Councilor Ferguson asked Allen if she could please describe the difference.

Allen stated that a construction loan would be more in depth, it requires % down, and would only finance 70-80% of the cost. A Full Faith & Credit loan eliminates red-tape and cost – can get term loan and the interest rate floats during draw down. Mayor Weaver asked what Washington Federal meant about 60 day lock. Councilor Gray asked if Washington Federal did a breakdown of the same terms Allen stated that she received different answers from Washington Federal regarding the question about buying down the loan, their first answer was no, second answer was it is negotiable.

**WHAT HAPPENS NEXT:** Mayor Weaver – stated that the next steps will be to hold a 2<sup>nd</sup> work session, Monday, February 24<sup>th</sup> at 6 pm.

Allen stated that it will be not just work session, but also Town Hall meeting – to open to public to ask questions about project/process.

Mayor Weaver – need people to come and participate.

**PUBLIC COMMENTS:** Dustin Blumenstein, NE Ash Street – Asked what Bond Council is? Allen stated that information on what the bond council does will also be presented on February 24<sup>th</sup> work session. Bond Council – for Full Faith & Credit – eliminates – they make sure that the bonding is valid and authorized and the loans remain tax exempt, they prepare resolutions, bank lending for compliance with state laws, etc. Allen will have this in the presentation at the next meeting.

May Garland, 38795 N Main Street – can give example of charges for the loan. For the water loan, they charged a flat fee. City Attorney reviewed list to remove any unnecessary fees.

John Whalen, 38821 SW 3<sup>rd</sup> Avenue – at the next meeting will the council discuss the needs of a new city hall and public works shop. Allen stated that staff will be making a presentation regarding the current facilities, and what repairs would need to be made to the existing buildings.

May Garland, 38795 N Main Street - Columbia Bank addressed certain figures, does Washington Federal give that information as well. How did city use those amount? Allen stated that she gave them the figures and that she came up with them based on various projects that have occurred in the area.

Mayor Weaver – next meeting

**MEETING ADJOURNED:** The city council work session was adjourned at 8:00 p.m.

The next regular meeting is scheduled for February 10, 2020 at 6:00 p.m.

Cathy Martin,  
Administrative Assistant