 **MEMO**

**CITY OF BLAINE**

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**To:** City Council

**From:** Jeffrey Lazenby, Finance Director

 Michael Jones, City Manager

**Date:** February 10, 2020

**Subject**: Gateway Regional Stormwater Pond LID 36 City Contribution Options

**Introduction**

On January 27, 2020, Council held a study session on the Gateway regional stormwater pond funding alternatives. At the conclusion of the study session, Council directed staff to submit options and a recommendation on City contributions to the total property assessments in Local Improvement District (LID) 36. This memo specifies three options available to Council with staff’s recommended option and how to fund the recommended option.

**City Contribution Options**

Please refer to the spreadsheet titled, Gateway Area Stormwater Pond LID 36 Assessments with City Contribution Options, for reference. The spreadsheet has the following information:

The current estimated total project costs of the stormwater pond consists of the following components: the contractor’s bid, change orders to date, a contingency, permits, legal and administration fees, construction management, and the value of the stormwater pond land. The numbers on the bottom of the spreadsheet show 1) the estimated costs of each component, 2) the total estimate, 3) and the Whatcom County Economic Development Initiative (EDI) grant, giving a grand total estimate.

Listed are three options for Council to consider, reducing the total estimated assessment for each property owner.

* Option A: $350,000.
* Option B: $550,000.
* Option C: $750,000.

**Evaluation**

Staff evaluated the alternatives based on the following criteria:

* Economic development potential
* Overall ability to fund
* Impact to General Fund service delivery
* Impact to Stormwater Fund rates and service delivery

**Staff recommends Option B**—City contribution of $550,000.

We find that City investment would be a beneficial economic development incentive that will lead to long term growth in sales tax, property tax, B&O tax, and utility tax revenue, in addition to adding jobs to the community. The investment can be expected to promote fiscal solvency for the City and increase access to jobs for residents.

Staff also finds that the City has capacity to fund this level of investment without undue burden on the Stormwater Fund or the General Fund. The recommended way to pay for this option includes two steps. First would be deducting the cost of the land from the total estimated project costs. The deduction would be achieved by an asset transfer from the General Fund to the Stormwater Fund at no cost to the Stormwater Fund (estimated value of $338,366). The second component is directly funding a portion of the project with $100,000 from the Rural Economic Development (RED) Fund, and approximately $111,634 from the Stormwater Fund funded through stormwater utility rates. The combination of these actions results in a City investment of $550,000 plus staff time to incentivize development in the Gateway area.

**RED Loan Program Revolving Fund**

The RED Fund is an appropriate source for the project due to the RED program purpose and goals. The purpose of this program is to establish and offer loans at below market interest rates to existing businesses and to encourage new business start-ups in the City of Blaine.

The source of funds for this program was a contribution from the City of Blaine Electric Utility and a State public utility tax credit authorized by RCW 82.16.0491. The State ended its tax credit on June 30, 2011. Due to the end of the tax credit, the Electric Fund stopped contributing to the RED Fund in 2012.

Because the City cannot be a direct lender of credit, a local bank partnered with the City to offer the loans. The loans were collateralized or secured through investment of the RED funds in the bank’s certificates of deposit (CDs). Within the last year, the local bank stopped partnering with the City in offering new loans. No other local banks have expressed interest in participating in the program. The program has been suspended indefinitely.

The current balance of the RED Fund less two outstanding loans is $125,000. Contributing $100,000 from this fund meets the program’s criteria of achieve job creation or business retention, and add or upgrade nonelectrical infrastructure.

Once the two outstanding loans are repaid, this will leave approximately $100,000 in the fund for future economic development initiatives or to secure loans if we are able to find a bank that will partner with the City.

**Other Funding Alternatives**

We evaluated other funding alternatives. Council could direct the City Manager to use General Fund revenues or reserves to fund fully the recommended contribution. Staff does not recommend this approach due to the undue financial hardship it would place on the General Fund and general City services and programs.

The Stormwater Fund could provide the full contribution; however, staff does not recommend this approach as it would place an undue burden on the stormwater rate payers.

**Recommendation**

Staff’s recommendation consists of two parts.

1. That Council approve Resolution 1790-20, providing for the transfer of real property from the City’s General Fund to the City’s Stormwater Fund.
2. As the final costs and special benefits are uncertain to date, the City Manager recommends that when Council forms the final assessment roll, the roll includes a City commitment of up to $212,000 to lower the final costs and assessments. The $212,000 is the $550,000 less the land value contribution commitment accounted for in Resolution 1790-20 as approved by Council.