




To: Mayor and Council

From: John Dunn 

Date: January 9, 2015

Subject: Revision in SRF Loan Amount for new Water Treatment Plant

At your January 13, 2015 City Council meeting, you will be asked to take action to execute the Drinking Water State Revolving Fund (SRF) loan to finance the new Water Treatment Plant. When staff presented the estimated amount for the loan to Council on November 25, 2014, a total SRF loan amount of \$76,606,000 was shown.

Included in that total was a 0.5% loan origination fee, estimated at \$381,000. Staff has since learned that the dollar amount of the origination fee is capped at a maximum of \$100,000. Consequently, **the dollar amount of the SRF loan that Council is being asked to execute on January 13 has been reduced by \$281,000 to a new loan total of \$76,325,000.** All other information provided on the attached Council Action Form from November 25, 2014 is unchanged.

COUNCIL ACTION FORM

SUBJECT: CONSTRUCTION LOAN FOR NEW WATER TREATMENT PLANT

BACKGROUND:

In financing the City’s new 15-million-gallon-per-day water treatment plant, the City Council determined that the most economical financing option for construction of the plant is the Iowa Drinking Water State Revolving Fund (DW SRF).

On January 24, 2012, Council authorized the use of a DW SRF planning and design loan to fund the design of the new treatment plant. These design loans can be rolled into a DW SRF construction loan or be repaid when another form of permanent financing is in place.

The most economical way to finance the entire plant – including both design and construction – is to enter into one permanent loan for all work associated with the water plant project. This will include plant design, plant construction, special inspections, construction of the pipeline between the old and new plants, lime sludge disposal and pond modifications, and easements.

The consolidated construction loan amount requested includes these **estimated** expenses:

Planning and Design Expenses (includes land)	\$	6,870,200	
Easement Acquisition		50,000	
Water Plant Construction		52,497,000	
Engineering Construction Administration		3,574,000	
Special Inspections		400,000	
Lime Sludge Disposal		1,573,000	
<u>Pipeline Construction</u>		<u>5,281,000</u>	
Subtotal		70,245,000	
<u>Contingency, ~ 10% of construction activities</u>		<u>5,980,000</u>	
Total Construction Estimate		76,225,000	
<u>SRF Loan Origination Fee (0.5% of loan)</u>		<u>381,000</u>	<u>100,000</u>
Total SRF Loan		76,606,000	76,325,000

Repayment of the SRF loan will be from revenues generated in the Water Fund. Water Fund balance projections shared with the City Council in April 2014 accounted for the anticipated debt service for this project, and the user rate increases needed to fund the

project are already complete. The project was placed on the DW SRF Intended Use Plan in December of 2009, a step that needed to be accomplished prior to entering into the loan agreement. The next step is for the City to hold a public hearing prior to taking action to incur debt. Immediately following the hearing, Council can authorize execution of the construction loan.

ALTERNATIVES:

1. Establish December 9, 2014 as the date to hold a public hearing and take action on a loan agreement with the Iowa Finance Authority to construct a new water treatment plant in an amount not to exceed \$76,606,000.
2. Establish December 9, 2014 as the date to hold a public hearing and take action on a loan agreement with the Iowa Finance Authority to plan and design for a new water treatment plant in some other amount.
3. Direct staff to seek alternative financing options for the construction expenses.

MANAGER'S RECOMMENDED ACTION:

Entering into this loan agreement is necessary to complete financing for the new water treatment plant. Moving forward utilizing the Drinking Water State Revolving Fund is the most economical way to finance the project for our utility customers.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1 as described above.