

**COUNCIL ACTION FORM**

**SUBJECT: FINANCING FOR NEW WATER TREATMENT PLANT DESIGN**

**BACKGROUND:**

On July 14, 2009, the City Council decided to move forward with a new 15-million-gallon-per-day water treatment plant. Staff has evaluated various financing options and is recommending that the City use the State of Iowa's Drinking Water State Revolving Loan Fund (DWSRF). This program provides low-interest loans to allow communities to minimize the financial cost of major capital projects. The loan fund can be used for planning and design as well as for water plant construction. At this time, the City would apply for a planning and design loan in an amount not to exceed \$6,249,000. The planning and design loan, administered by the Iowa Finance Authority, allows for a zero percent loan for up to three years with no initiation fee, no servicing fee, and no payments. This planning and design loan can then be rolled into a State Revolving Fund construction loan or repaid when permanent financing is in place.

The planning and design loan amount requested includes these **estimated** expenses.

|                                |                    |
|--------------------------------|--------------------|
| Administrative & Legal         | \$ 20,000          |
| Engineering Planning & Design  | 4,919,000          |
| Archaeological & Environmental | 40,000             |
| Value Engineering              | 350,000            |
| Land Acquisition               | <u>920,000</u>     |
|                                | <b>\$6,249,000</b> |

This amount includes \$244,000 already spent in 2008/09 for concept development, since the loan is retroactive for money already spent on planning and design. It is also important to note that eminent domain cannot be used if SRF funds are used for land acquisition.

The City's bond counsel advises that a public hearing is required prior to taking action to incur debt. Before the loan agreement can be signed, the project must be approved by the state and placed on its Intended Use Plan (IUP). Staff filed the application for the IUP in late August.

**ALTERNATIVES:**

1. Hold the necessary public hearing and authorize submittal of the loan and disbursement application to the Iowa Finance Authority to fund planning and design for a new water treatment plant in a principal amount not to exceed \$6,249,000.

2. Direct staff to seek alternative financing options for the planning and design expenses.

**MANAGER'S RECOMMENDED ACTION:**

The City Council is committed to moving forward with construction of a new water treatment plant, and this public hearing is a required step in the funding process. Taking advantage of the Drinking Water State Revolving Loan Fund appears to be the most economical way to finance the project for our utility customers. In particular, use of the zero interest planning and design loan provides a financial benefit to our customers not available through any other funding mechanism.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby holding the necessary public hearing and authorizing submittal of the loan and disbursement application to the Iowa Finance Authority to fund planning and design for a new water treatment plant in a principal amount not to exceed \$6,249,000.