

COUNCIL ACTION FORM

SUBJECT: LOAN AND DISBURSEMENT AGREEMENT TO FUND PLANNING AND DESIGN FOR NEW WATER TREATMENT PLANT

BACKGROUND:

On December 13, 2011, the Ames City Council established January 24, 2012 as the date of a public hearing to enter into a Drinking Water State Revolving Fund (DW SRF) planning and design (P&D) loan to fund the design of a new 15 million gallon per day water treatment plant. The DW SRF program provides low-interest loans to allow communities to minimize the financial cost for major capital projects. The loan fund can be used for planning and design, as well as water plant construction. At this time, the City intends to enter into an agreement for a planning and design loan in an amount not to exceed \$11,425,000. The planning and design loan, administered by the Iowa Finance Authority, allows for a zero percent interest loan for up to three years with no initiation fee, no servicing fee and no payments. Planning and design loans can either be rolled into a State Revolving Fund construction loan or repaid when some other form of permanent financing is in place.

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

Reimbursement of design work from previous years (FY 08/09 to FY 11/12)	\$ 703,380
Land Acquisition and related expenses	890,000
Environmental Assessments	25,000
Site work (Topographical/Geotechnical)	50,000
<u>Final Design, Value Engineering</u>	<u>8,718,000</u>
Subtotal	10,386,380
<u>Contingency, ~ 10%</u>	<u>1,038,620</u>
Total P&D Estimate	11,425,000

This amount exceeds the actual amount that is anticipated to be needed prior to entering into a construction loan. There is no penalty, financial or otherwise, to the City for requesting more than is needed in the P&D loan. Only the expenses actually incurred would be rolled forward into the construction loan.

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 P&D loan agreement. The next step is for the City Council to hold a public hearing prior to taking action to incur debt. Immediately following the hearing, Council is asked to authorize executing the P&D loan.

ALTERNATIVES:

1. Authorize the Planning and Design loan and disbursement agreement with the Iowa Finance Authority to fund planning and design for a new water treatment plant in a principal amount not to exceed \$11,425,000.
2. Authorize the Planning and Design loan and disbursement agreement with the Iowa Finance Authority to fund planning and design for a new water treatment plant in some other principal amount.
3. Direct staff to seek alternative financing options for the planning and design expenses.
4. Take no action to incur debt on the new water treatment plant project at this time, and provide direction to staff on the future of the project.

MANAGER'S RECOMMENDED ACTION:

Authorization of this loan agreement is critical to financing the planning and design for the new water treatment plant. Moving forward utilizing the State Drinking Water Revolving Loan 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, thereby authorizing a loan agreement with the Iowa Finance Authority for the planning and design for a new water treatment plant in a principal amount not to exceed \$11,425,000.