

ITEM # 36
DATE: 08-14-12

COUNCIL ACTION FORM

SUBJECT: SETTING DATE OF PUBLIC HEARING TO ENTER INTO LOAN AGREEMENT WITH IOWA FINANCE AUTHORITY TO FUND CONSTRUCTION OF WATER POLLUTION CONTROL FACILITY DISINFECTION PROJECT

BACKGROUND:

On July 10, 2012, the City Council issued a notice to bidders for construction of a new ultraviolet light (UV) disinfection system for the Water Pollution Control Plant. Construction of the system is required under the terms of the discharge permit for the facility.

Staff has explored the most economical financing options and is recommending that the City utilize the Clean Water State Revolving Fund. The current terms for the SRF loan program include a 0.5% loan origination fee and an interest rate of 3% over a 20 year term. Repayment of the loan will come from the Sewer Fund, and has been accounted for in the current rates and fund balance projections.

The first step for a project to be eligible for the CWSRF loan is to have the project approved by the State and placed on the Intended Use Plan (IUP). This project has been included in the IUP since the first quarter of 2011 and is ready for financing. The WPC Disinfection Project is currently shown in the IUP with an anticipated cost of \$3,120,900. Based on the engineer's opinion of probable construction costs reported to Council on July 10, the projected cost of the project is as summarized below:

| | |
|-------------------------------------|---------------------|
| Engineering Cost | \$ 390,457 |
| Construction Cost | 2,010,000 |
| Construction Contingency | 210,000 |
| Total Estimated Project Cost | \$ 2,601,457 |

A public hearing is required prior to the Council taking action to incur debt. Bids are due on the UV disinfection project on August 8, 2012. The bids will be reported to Council at the August 14, 2012 Council meeting. Once the contract amount has been determined, the final amount of the CWSRF loan can be determined.

Staff is now recommending that the City Council establish August 28, 2012 as the date for a public hearing on the loan agreement. The public notice will reflect the \$3,120,900 currently shown in the IUP, knowing that the actual loan amount will be adjusted following the bid opening and contract award.

It should be noted that the Iowa SRF program is recommending a reduction in interest rates. The matter will be considered by the Iowa Environmental Protection Commission at their September 18 meeting and, if adopted, will become effective for loans closed after October 1. Staff will take care to delay closing on this loan until after October 1 in order to benefit from any rate reduction adopted. Any construction costs incurred prior to closing on the loan will be minor and can be retroactively included in the SRF loan.

ALTERNATIVES:

1. Establish August 28, 2012, as the date to hold a public hearing for a loan agreement with the Iowa Finance Authority for construction of the Water Pollution Control Plant Ultraviolet Disinfection System in an estimated amount of \$3,120,900.
2. Do not hold a public hearing, and provide staff with direction on the desired financing method for the project.

MANAGER'S RECOMMENDED ACTION:

The Capital Improvements Plan and current sewer rate structure both anticipated the use of long-term financing for the new Water Pollution Control Plant Ultraviolet Disinfection System required by the facility's discharge permit. Moving forward utilizing a loan from the Clean Water State Revolving Fund is the most economical way to finance this project for our utility customers.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby establishing August 28, 2012, as the date to hold a public hearing for a loan agreement with the Iowa Finance Authority for construction of the Water Pollution Control Plant Ultraviolet Disinfection System in an estimated amount of \$3,120,900.