

ITEM #: 23
DATE: 10-22-24
DEPT: FIN

COUNCIL ACTION FORM

SUBJECT: APPROVING STATE REVOLVING FUND AGREEMENT IN THE AMOUNT OF \$65,185,000 TO BE REPAID WITH SEWER UTILITY REVENUE

BACKGROUND:

This resolution is the final step in authorizing a not-to-exceed amount of \$65,185,000 in Sewer Revenue Bonds through the Iowa State Fund Clean Water Program (CWSRF), in support of improvements to the Water and Pollution Control Facility. **As previously discussed with the City Council, these improvements are necessary to comply with the unfunded mandates of the 2013 Iowa Nutrient Reduction Strategy.**

Staff believes utilizing the CWSRF to fund improvements is in the City's best interest. This program has a long history of providing below-market rate loans to municipalities to fund utility improvements, including several loans to the City of Ames.

A summary of the project costs is as follows:

Engineering -	\$ 6,038,000
Other Professional Services -	\$ 166,220
Construction -	<u>\$ 53,645,000</u>
Total	\$ 59,849,220
Contingency	<u>\$ 5,335,780</u>
<u>Total Authorized Amount</u>	<u>\$ 65,185,000</u>

It should be noted that the contingency amount listed above includes an additional \$2,668,000, over what was initially presented as part of the project costs. The purpose of the additional contingency is to provide a cushion for project changes and prevent unnecessary issuance costs associated with increasing the not-to-exceed amount as a separate action, should it be necessary.

Staff believes that the CWSRF program offers the lowest-cost option for borrowing for capital projects, with a 2.43% annual interest rate and a 0.25% annual servicing fee, in addition to the \$100,000 origination fee. The twenty-year loan is estimated to have a total debt service cost of \$88,747,452. **The funding source for the loan's repayment will be sewer utility revenues, which have been included in the financial model used to project future rate increases.**

Based on market condition information provided by the City's financial advisor, if the City were to go to the market to issue Sewer Revenue bonds, the true interest cost would likely be between 4.00%-4.25%. Additionally, Sewer Revenue bonds issued into the market would require a debt service reserve and higher debt service coverage requirements than the CWSRF Program. **Staff believes this further confirms that utilization of the CWSRF program as the funding source for this project is the lowest-cost alternative.**

ALTERNATIVES:

1. Adopt a resolution approving a State Revolving Fund Agreement in the amount of \$65,185,000 to be repaid with Sewer Utility revenue.
2. Do not approve the loan and disbursement agreement and provide staff additional direction for the project's financing.

CITY MANAGER'S RECOMMENDED ACTION:

Authorization of the loan agreement will allow the City to access State Revolving Funds to finance necessary improvements to the WPC facilities. The financing terms of the CWSRF program are the most cost-effective method of financing the project. The principal and interest payments related to the loan have been accounted for in the Sewer Fund rate design. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as noted above.