

ITEM #:	13
DATE:	05-12-26
DEPT:	FIN

COUNCIL ACTION FORM

SUBJECT: APPROVING STATE REVOLVING LOAN AGREEMENT IN THE AMOUNT OF \$5,700,000 TO BE REPAID WITH SEWER UTILITY REVENUES

BACKGROUND:

This resolution represents the final step in authorizing a not-to-exceed amount of \$5,700,000 in Sewer Revenue Bonds through the Iowa State Clean Water State Revolving Fund (CWSRF) Program. The purpose of this loan is to support the City's annual program for rehabilitation and reconstruction of deficient sanitary sewers and deteriorated manholes at various locations throughout the city.

The goal of this program is to identify and remove major sources of inflow/infiltration (I/I) as a means of lowering the peak wet weather flow at the treatment plant. By eliminating I/I in these sewer mains, the sanitary sewer system will also regain needed capacity. **This project includes the rehabilitation and lining of sanitary sewer segments along E. Lincoln Way and the Nikkol Trunk Line, extending from E. Lincoln Way to south of U.S. Highway 30.**

On March 24, 2026, the City Council approved a resolution proceeding with additional action for the authorization of a Loan and Disbursement Agreement and the issuance of Sewer Revenue Bonds (SRF Loan) in an amount not to exceed \$5,700,000. The Council also approved the final plans and specifications and awarded a contract to Municipal Pipe Tool Co. LLC in the amount of \$4,462,230.40. Staff believes that utilizing the CWSRF to fund these improvements is in the City's best interest. The program has a long history of providing below-market-rate loans to municipalities for utility improvements, including several prior loans to the City of Ames.

The current rate offered by the CWSRF program for a 20-year loan is 3.00%, with an additional 0.25% annual servicing fee and a \$28,500 origination fee. The 20-year loan is estimated to have total debt service costs of \$7,747,638.74. Repayment of the loan will be funded through sewer utility revenues, which have been incorporated into the financial model used to project future rate increases.

Based on current market conditions and information provided by the City's financial advisor, if the City were to issue Sewer Revenue Bonds in the open market, the true interest cost would likely range between 4.00% and 4.25%. Additionally, bonds issued in the public market would require a debt service reserve fund and higher debt service coverage requirements than those associated with the CWSRF program. Staff believes this further confirms that utilizing the CWSRF program as the funding source for this project represents the lowest-cost alternative.

ALTERNATIVES:

1. Adopt a resolution approving a State Revolving Fund Agreement in the amount of \$5,700,000 to be repaid with Sewer Utility revenues.
2. Do not approve the Loan and Disbursement Agreement and provide staff with additional direction regarding 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 City's sewer collection system. The financing terms of the CWSRF program represent the most cost-effective method for funding the project. The principal and interest payments associated with the loan have been incorporated into 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.