

City of Indianola, Iowa

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Water Resource Recovery Facility Financing Plan



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Scenario Assumptions

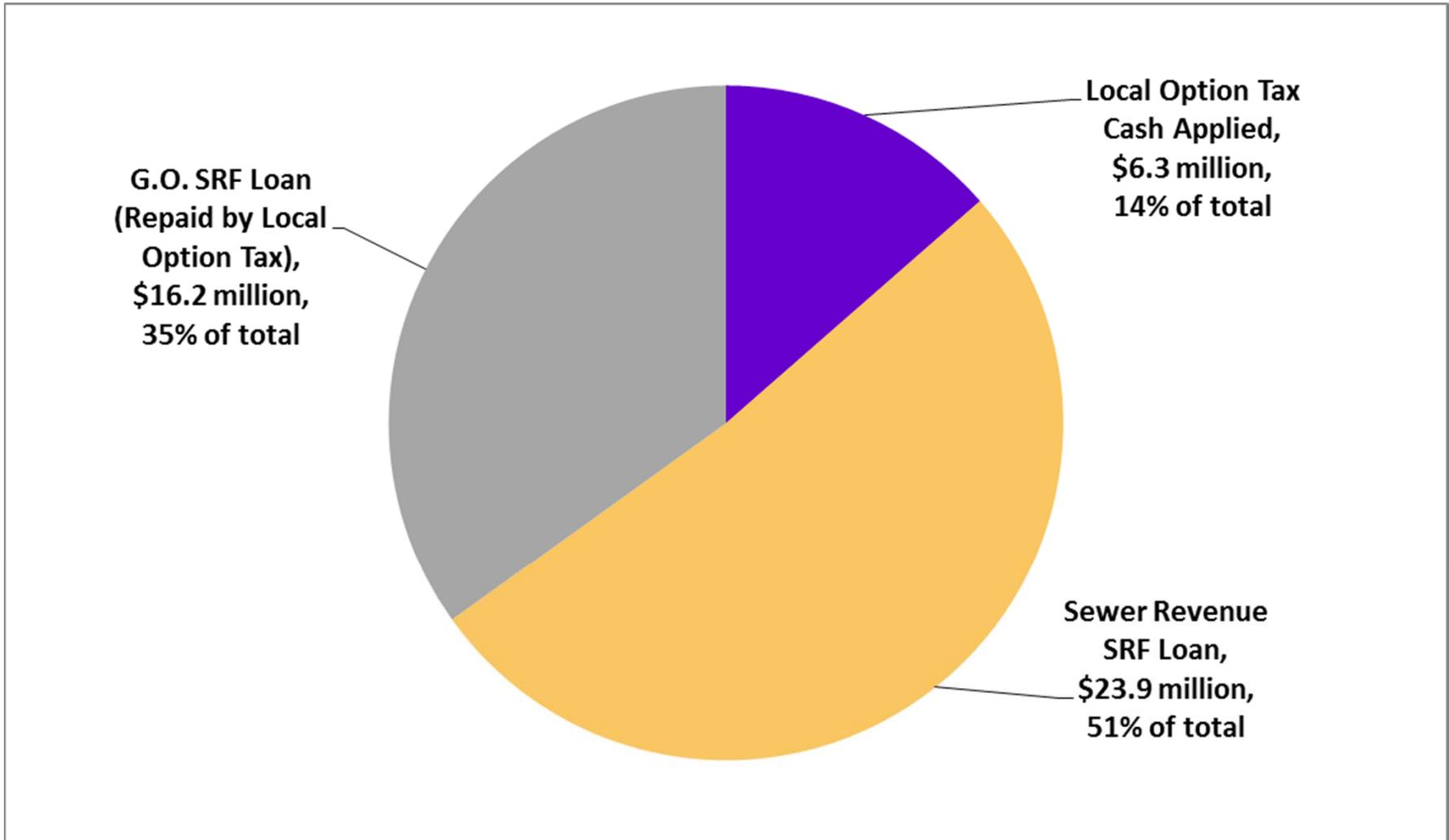
- \$46.4 million total project cost (includes trunk line project estimate).
- \$4.3 million Local Option Tax revenues collected through FY 19.
- \$1.0 million annual Local Option Tax revenues in FY 20 and beyond.
 - ✓ County-wide collections.
- Apply FY 17 through FY 21 Local Option Tax Revenues to project.
 - ✓ Total of \$6.3 million of cash applied.
- Additional annual renewal and replacement capital projects targeted at average of \$750,000 per year.
- Sewer fund balance target of 100% of annual operating expenditures.
 - ✓ Additional revenues designated for future capital needs (capital fund).
- Conservatively projecting no increases in usage/users.
- Projected 3.00% annual operating expense increases.
- Maintain financial targets per established City financial policies.

Scenario Details



- Project will be financed through the State Revolving Fund (SRF) program using loans repaid by sewer revenues and local option taxes (G.O. Notes).
 - ✓ Sewer Revenue Notes (two series) – payable only from sewer revenues.
 - Provides \$23.9 million for project costs.
 - 30-year term.
 - 3.00% interest rate.
 - Can pre-pay at anytime with no penalty.
 - ✓ G.O. Local Option Tax Notes (one series) – repaid by Local Option Tax.
 - Provides \$16.2 million for project costs.
 - \$1.0 million annual debt service paid 100% by Local Option Tax.
 - 20-year term.
 - 2.00% interest rate.
 - Can pre-pay at anytime with no penalty.

Breakdown of WWTP Financing Sources





Additional Scenario Considerations

- Treatment Plant Equipment is 50-year equipment.
- Blended interest rate for financing is 2.73%.
- Modest sewer user rate adjustments necessary to meet financial targets.
 - ✓ Potential for (inflationary) adjustments FY 22-23 and beyond dependent upon future population growth and usage factors.
 - To cover 2.00% projected annual operating expense growth and additional targeted CIP projects.
- Capital fund would have positive fund balance available through FY 24-25.
 - ✓ This is in addition to average \$750,000 annual target for renewal and replacement capital projects.
- Additional revenues could be applied to early repayment of debt.
 - ✓ May also consider future refinancing of sewer revenue portion with G.O. debt.
 - Would allow continued use of Local Option Tax revenues for debt repayment beyond initial 20 years.



Key Utility Finance Metrics

- Two key items can be evaluated to determine basic financial health of the utility system:
 - ✓ Debt Service Coverage.
 - The amount of net revenues (operating revenues less operating expenses) divided by required annual debt service payments.
 - ✓ Minimum is typically pledged as part of any debt agreement and can range from \$1.10 X of debt service to \$1.25 X.
 - ✓ Cash Balance as % of Operating Expenses (Days Cash on Hand).
 - The amount of unreserved, unrestricted reserves that can be used to pay for operations if necessary.
 - Minimum target for financial health of 25% of annual operating expenses (90 days cash).
 - City's financial policy is 100% for unrestricted cash balance.

City Sewer Fund Historical Performance



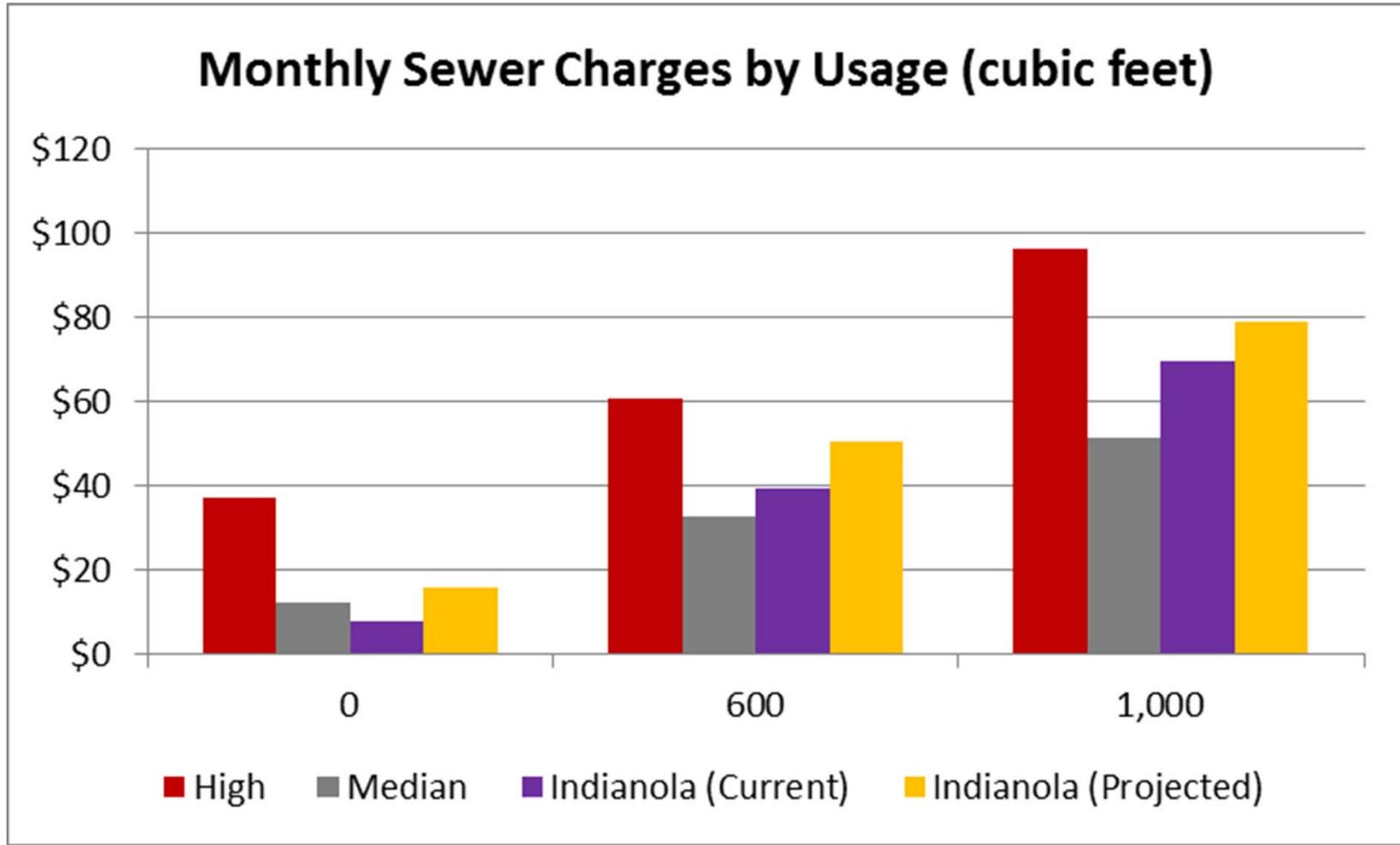
	Audit FY 2014-15	Audit FY 2015-16	Audit FY 2016-17	Audit FY 2017-18	Actual FY 2018-19
SEWER CONSUMPTION (GALLONS)	313,092,970	313,411,432	331,989,405	339,921,901	332,232,021
OPERATING REVENUES	\$2,972,746	\$3,072,779	\$3,045,618	\$3,276,217	\$3,300,880
OPERATING EXPENSES	\$1,135,535	\$988,052	\$1,004,363	\$1,093,565	\$1,240,554
NET OPERATING INCOME	\$1,837,211	\$2,084,727	\$2,041,255	\$2,182,652	\$2,060,326
Investment Interest	24,466	21,206	27,421	45,036	60,110
Net Revenues for Debt Service	\$1,861,677	\$2,105,933	\$2,068,676	\$2,227,688	\$2,120,436
Total Sewer Revenue Debt	\$694,582	\$668,882	\$624,469	\$669,696	\$826,928
Total Other Sewer Debt (G.O.)	411,018	333,318	142,018	59,418	0
Total Debt Service Paid by Sewer	\$1,105,600	\$1,002,200	\$766,487	\$729,113	\$826,928
DEBT SERVICE COVERAGE					
Net Revenues/ Revenue Debt	2.68 X	3.15 X	3.31 X	3.33 X	2.56 X
Net Revenues / All Debt	1.68 X	2.10 X	2.70 X	3.06 X	2.56 X
CASH FLOW AFTER DEBT	\$756,078	\$1,103,734	\$1,302,190	\$1,498,575	\$1,293,508
ENDING UNRESTRICTED CASH	\$1,272,604	\$1,707,932	\$1,230,105	\$1,093,565	\$1,240,554
Cash as % of Expenses	112.1%	172.9%	122.5%	100.0%	100.0%



User Rate Impact / Potential Adjustments

- Indianola has lower base sewer rate than all but 10 communities over 10,000 population in Iowa (out of 42, Source: City of Ames, 2018 Sewer Rate Report).
 - ✓ \$8.00 per month, monthly minimum charge.
 - ✓ This is only fixed (non-variable) rate collected by the sewer enterprise.
 - ✓ Based on 4,000 gallon usage for residential monthly bill (typical), fixed charges are just over 18% of total bill.
 - By comparison, once project financing is online, fixed expenses for the sewer enterprise will be approximately 59% of total costs.
- To meet combined systems needs related to operations, debt service and ongoing capital improvements (CIP), additional sewer revenues are necessary.
 - ✓ Projected adjustment to monthly minimum charge over next 2-3 fiscal year periods of \$8.00 per month to the monthly minimum charge.
 - Moving fixed charges to approximately 30% of total bill.
 - ✓ Projected minor adjustments to usage and strength surcharges.

Rate Comparison



Note: 600 cubic feet is equivalent to 4,488 gallons (represents typical residential monthly usage).

Source: City of Ames, 2018 Sewer Rate Report

Potential Sewer User Rate Adjustment



	Current FY 19-20	Projected FY 20-21	Projected FY 21-22
Base Rate (includes first 1,000 gallons)	\$8.00	\$12.00	\$16.00
Usage Rate (per 1,000 gallons)	\$9.05	\$9.45	\$9.85
Average Monthly Bill (Residential/Small Commercial)			
Assumes 4,000 gallons	\$35.15	\$40.35	\$45.55
Assumes 12,000 gallons	\$107.55	\$115.95	\$124.35

**City will evaluate potential rate adjustments once bids are received next week.*

NOTE: This is a decision for the Council to make including how to implement any rate adjustments (up front OR phased approach).



Planned WWTP Financing Timeline

- January 16th
 - ✓ Bid opening (receipt of bids – no meeting necessary).
- January 21st Council meeting
 - ✓ Designation of apparent low bidder.
 - ✓ Council sets public hearing on SRF financing.
- February 4th Council meeting
 - ✓ Council holds public hearing on SRF financing (authority to proceed).
 - ✓ Council considers awarding contract to winning bidder (notice to proceed).
- February 18th Council meeting
 - ✓ Council authorize issuance / legal documents related to first SRF financing.
- March 6th
 - ✓ Closing / first draw of funds by City (no meeting necessary).