

City of Indianola, Iowa



Water Resource Recovery Facility Financing Plan



Scenario Assumptions

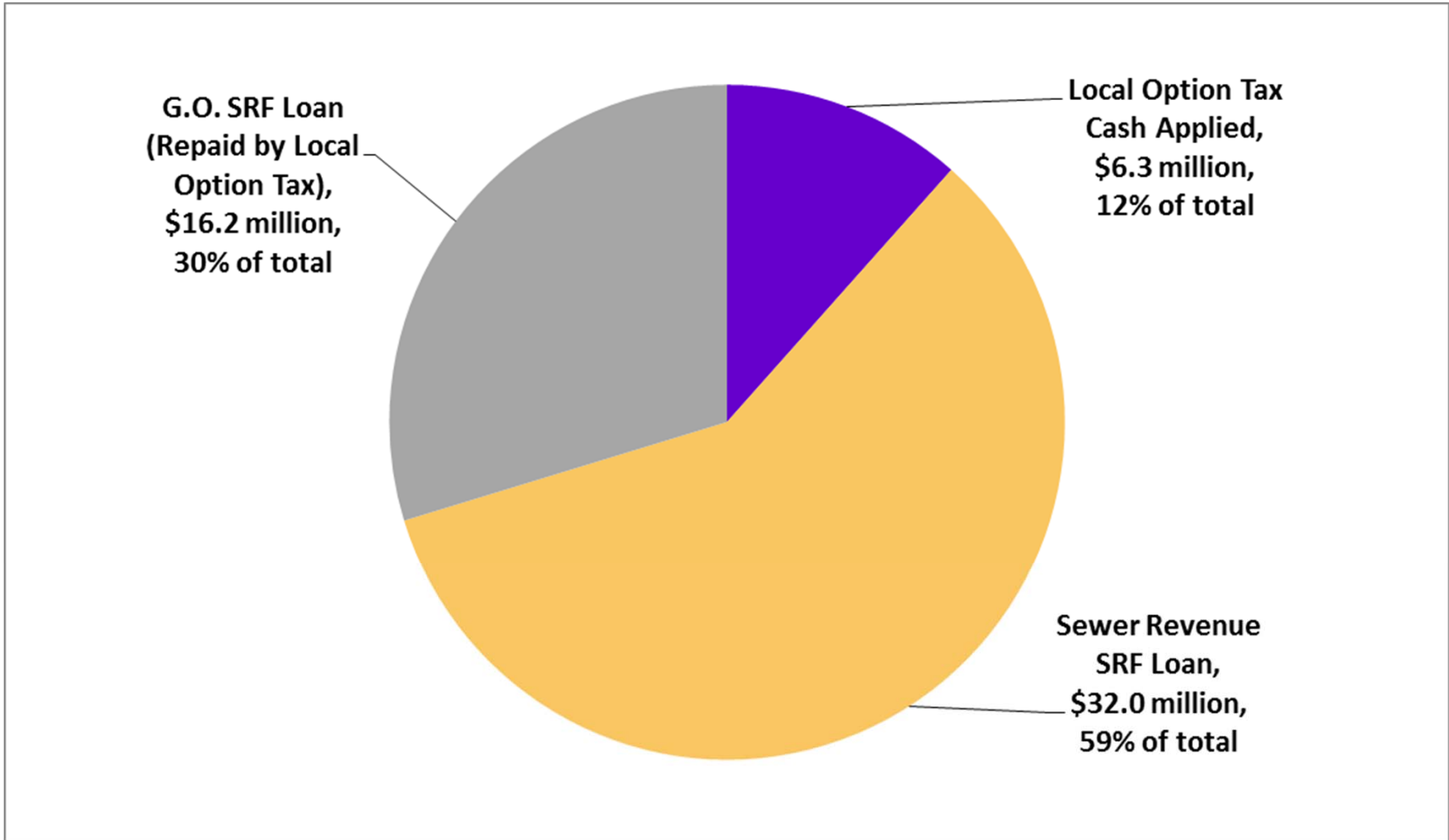
- \$54.5 million total project cost (includes trunk line project estimate).
- \$4.3 million Local Option Tax revenues collected through FY 19.
- \$1.0 million annual Local Option Tax revenues in FY 20 and beyond.
 - ✓ County-wide collections.
- Apply FY 17 through FY 21 Local Option Tax Revenues to project.
 - ✓ 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 \$32.0 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 WRRF Financing Sources





Additional Scenario Considerations

- WRRF Equipment is 50-year equipment.
- Blended interest rate for financing is 2.79%.
- 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



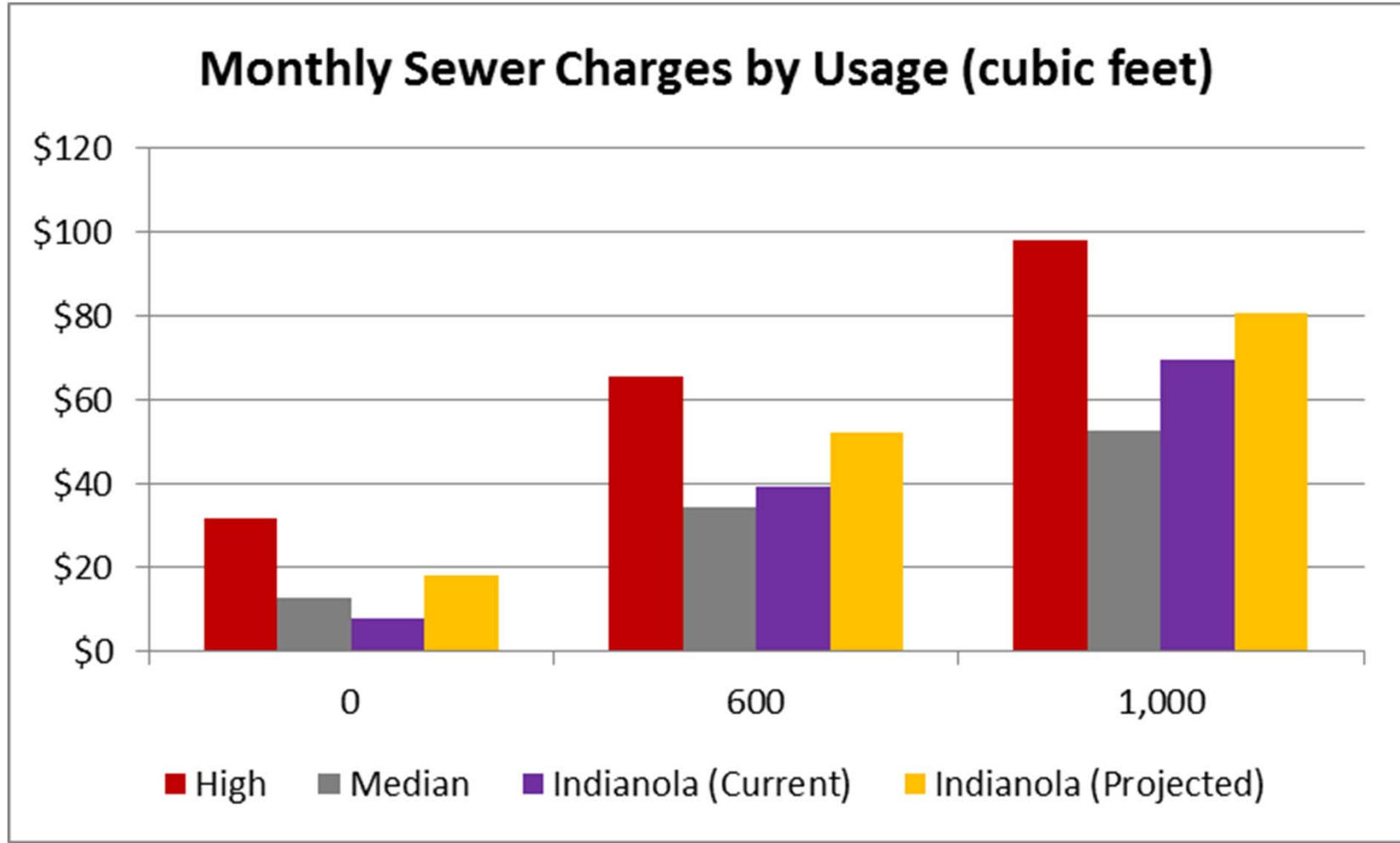
	Audit FY 2014-15	Audit FY 2015-16	Audit FY 2016-17	Audit FY 2017-18	Actual FY 2018-19
SEWER CONSUMPTION (GALLONS)	313,092,970	313,411,432	331,989,405	339,921,901	332,232,021
OPERATING REVENUES	\$2,972,746	\$3,072,779	\$3,045,618	\$3,276,217	\$3,300,880
OPERATING EXPENSES	\$1,135,535	\$988,052	\$1,004,363	\$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 11 communities over 10,000 population in Iowa (out of 42, Source: City of Ames, 2019 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 61% 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 \$10.00 per month to the monthly minimum charge.
 - Moving fixed charges to approximately 38% of total bill.
 - ✓ Projected minor adjustments to usage and strength surcharges.

Rate Comparison – 2019 Sewer Rate Report



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

Source: City of Ames, 2019 Sewer Rate Report

2019 SEWER RATE COMPARISON
Iowa Cities (Population 10,000+)
All Wastewater Plants

Prepared by the City of Ames, Iowa

0 CF		600 CF		1,000 CF		10,000 CF		50,000 CF		100,000 CF	
Keokuk	31.90	Oskaloosa	65.64	Oskaloosa	98.08	Clinton	963.00	Clinton	4,815	Clinton	9,630
North Liberty	31.24	Fairfield	65.49	Clinton	96.30	Oskaloosa	827.98	Oskaloosa	4,072	Waukee	8,127
Muscatine	29.71	Clinton	57.78	Fairfield	94.49	Waukee	815.89	Waukee	4,065	Oskaloosa	8,127
Spencer	25.56	Norwalk	53.42	Waukee	84.75	Boone	800.00	Boone	3,988	Boone	7,973
Marshalltown	23.75	Waukee	52.25	Norwalk	84.03	Norwalk	772.76	Norwalk	3,834	Norwalk	7,660
Fort Madison	23.25	Ankeny	50.96	Boone	82.70	Fairfield	746.99	Fairfield	3,647	Fairfield	7,272
Storm Lake	22.07	North Liberty	50.88	Ankeny	72.15	Indianola	675.94	Indianola	3,384	Indianola	6,769
Fairfield	21.99	Boone	50.82	Keokuk	70.38	Altoona	597.46	Altoona	2,967	Altoona	5,930
Cedar Falls	19.45	Keokuk	49.37	North Liberty	67.73	Ankeny	572.71	Des Moines	2,806	Waverly	5,610
Ankeny	19.18	Fort Madison	49.06	Indianola	66.65	Des Moines	564.69	Waverly	2,805	Des Moines	5,607
Pella	18.36	Davenport	46.90	Fort Madison	66.27	Waverly	561.00	Ankeny	2,779	Ankeny	5,578
Davenport	18.34	Ottumwa	43.00	Davenport	65.94	Keokuk	542.99	Keokuk	2,644	Dubuque	5,270
Oskaloosa	16.98	Spencer	42.51	Altoona	64.25	Dubuque	527.08	Dubuque	2,635	Keokuk	5,269
Fort Dodge	16.94	Marshalltown	42.23	Ottumwa	62.00	Davenport	494.34	Davenport	2,398	Davenport	4,778
Cedar Rapids	16.16	Storm Lake	41.10	Des Moines	60.43	Ottumwa	489.50	Ottumwa	2,390	Ottumwa	4,765
Waterloo	15.75	Altoona	40.54	Spencer	57.06	West Des Moines	456.16	West Des Moines	2,266	West Des Moines	4,529
Ottumwa	14.50	Indianola	39.57	Pleasant Hill	56.50	Fort Madison	453.38	Clive	2,222	Clive	4,436
Waukee	14.37	Burlington	39.17	Waverly	56.10	Clive	450.62	Coralville	2,205	Coralville	4,405
Burlington	14.04	Muscatine	38.35	Burlington	55.93	North Liberty	446.76	Fort Madison	2,174	Fort Madison	4,325
Coralville	13.75	Pleasant Hill	38.03	Marshalltown	54.55	Coralville	444.95	Grimes	2,160	Grimes	4,315
Waverly	13.74	Des Moines	38.02	Storm Lake	53.79	Grimes	436.64	Sioux City	2,147	Sioux City	4,289
Altoona	12.92	Clive	34.34	Dubuque	52.69	Burlington	432.95	North Liberty	2,131	Johnston	4,255
Newton	12.52	Waverly	33.66	Clive	52.06	Sioux City	432.16	Johnston	2,131	North Liberty	4,237
Sioux City	11.28	Cedar Falls	33.41	Muscatine	49.87	Johnston	431.04	Burlington	2,109	Burlington	4,203
Ames	11.03	Johnston	31.64	Coralville	48.95	Newton	405.50	Newton	2,010	Newton	4,015
Dubuque	10.53	Dubuque	31.61	Grimes	48.85	Iowa City	403.16	Iowa City	1,999	Iowa City	3,994
Pleasant Hill	10.34	Grimes	31.61	West Des Moines	48.85	Pleasant Hill	394.61	Marion	1,902	Marion	3,802
Mason City	10.05	Coralville	31.35	Johnston	48.64	Marion	382.00	Pleasant Hill	1,819	Pleasant Hill	3,599
Clinton	9.63	West Des Moines	30.74	Cedar Falls	47.37	Cedar Falls	361.47	Cedar Falls	1,757	Cedar Falls	3,502
Council Bluffs	8.58	Newton	28.56	Sioux City	45.10	Spencer	349.77	Pella	1,717	Pella	3,434
Iowa City	8.15	Sioux City	28.19	Newton	44.60	Pella	343.35	Bettendorf	1,642	Bettendorf	3,282
Indianola	8.00	Iowa City	28.10	Iowa City	44.06	Storm Lake	339.24	Urbandale	1,630	Urbandale	3,257
Clive	7.77	Ames	27.95	Marion	40.00	Bettendorf	330.00	Storm Lake	1,608	Storm Lake	3,194
Norwalk	7.50	Marion	24.80	Ames	39.23	Urbandale	328.40	Marshalltown	1,564	Marshalltown	3,104
Johnston	6.15	Cedar Rapids	24.77	Urbandale	35.54	Marshalltown	311.75	Muscatine	1,461	Muscatine	2,901
Grimes	5.76	Waterloo	23.31	Bettendorf	34.80	Muscatine	309.07	Council Bluffs	1,430	Council Bluffs	2,860
Iowa Great Lakes Sanitary District	5.00	Urbandale	22.52	Pella	34.34	Ames	293.03	Ames	1,421	Ames	2,831
Des Moines	4.40	Fort Dodge	21.81	Waterloo	33.39	Council Bluffs	286.00	Spencer	1,388	Spencer	2,686
West Des Moines	3.59	Bettendorf	21.68	Cedar Rapids	33.37	Waterloo	260.19	Waterloo	1,268	Waterloo	2,528
Boone	3.00	Pella	20.60	Fort Dodge	31.59	Fort Dodge	251.74	Fort Dodge	1,230	Fort Dodge	2,453
Urbandale	3.00	Mason City	19.60	Mason City	29.33	Mason City	248.21	Mason City	1,221	Mason City	2,437
Bettendorf	2.00	Council Bluffs	17.16	Council Bluffs	28.60	Cedar Rapids	227.01	Cedar Rapids	1,088	Cedar Rapids	2,163
Marion	2.00	Iowa Great Lakes Sanitary District	11.06	Iowa Great Lakes Sanitary District	15.10	Iowa Great Lakes Sanitary District	105.99	Iowa Great Lakes Sanitary District	510	Iowa Great Lakes Sanitary District	1,015
High	31.90	High	65.64	High	98.08	High	963.00	High	4,815	High	9,630
Median	12.92	Median	34.34	Median	52.69	Median	432.95	Median	2,131	Median	4,255
Low	2.00	Low	11.06	Low	15.10	Low	105.99	Low	510	Low	1,015

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	\$18.00
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	\$47.55
Assumes 12,000 gallons	\$107.55	\$115.95	\$126.35

**Now that bids are known, City must evaluate how to proceed with potential rate adjustments and adopt new rates via ordinance process.*

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