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To: Independence City Manager, Mayor and City Council
From: Maggie Burger, Sr. Vice President, Speer Financial, Inc.
Re: Sewer Project Borrowing Options

As the City plans their next sewer utility project we provide the following financing options for consideration and further discussion as the project progresses.

Option 1 -State Revolving Fund (SRF)
The SRF program is commonly used for sewer and water utility projects that replace and repair existing utility lines, plants, lagoons, mains, lift stations. The SRF is a low interest option the Iowa Finance Authorities offers communities within the State of Iowa. Some notable parameters of the SRF program are:

- Financing Options for Revenue Bonds or General Obligation Bonds and a combination of both
- Fixed interest rates for up to 20 years; 20-30 year loans can be obtained with DNR approval on an extended term worksheet that the matches useful life of project. Semi-annual payments
- Interest rates set quarterly based on municipal market index, rate fixed at time of construction application. CURRENT INTEREST RATE: 3.09% (2.84% rate plus 0.25% annual admin)
- The program requires approximately 6-9 month lead up to construction for DNR review, approval, including environmental review.
- The program offers a 0% Planning and Design loan for the engineering costs leading up to the project bid letting.
- The program allows for reimbursement throughout the project, no interim financing needed.
- SRF funding can be supplemental to any grant awards or other cash resources.
- The coverage factor for the SRF loan is 1.10x; this means that the Net Revenues of the system must be at or more than 1.10x then the total sewer revenue debt outstanding annually.
- The SRF program does not require a debt service reserve fund.
- The SRF program requires Buy American Steel and Davis Bacon prevailing wage.

Option 2 – USDA Rural Development Loan
The USDA Rural Development may be used for water and sewer utility projects. The USDA offers a lower interest rate programming to communities within the State of Iowa. Some notable parameters of the USDA program are:

- Financing Options for Revenue Bonds only
- Fixed interest rates for 40 years with monthly payments. CURRENT INTEREST RATE: Market Level 3.875%
- The program requires approximately 9 months of lead time to construction for review, approval and environmental review.
- The program requires interim financing. The USDA loan will be entered into after construction is completed. The USDA program will finance the interest cost on the interim financing loan.
- The coverage factor for the USDA program is 1.10x, like the SRF program.

- The USDA does require a 10% debt service reserve fund which is built up over the first 12 months of the loan.
- The USDA program requires (Build America, Buy American) BABA

Option 3 – Municipal Bond Financing
The City can issue municipal bonds for these type of projects. All General Obligation Bonds, or SRF loans do count against the City's debt capacity. Revenue debt will not count against the City's debt capacity. Some notable parameters of municipal financing are:

- Financing Options for both revenue and general obligation bonds.
- Interest rates will fluctuate with the municipal bond market, current revenue bond rates are between 4.5%-6%. General obligation bond rates are between 4.50%-5%.
- No extra review or approval other than what is regularly required by the DNR for this project.
- Revenue bonds cannot exceed 30 years, and general obligation bonds cannot exceed 20 years.
- Bonding for these project would require at least 1.20x coverage factor and a 10% debt service reserve fund that must be funded at the time of the borrowing.

Our recommendation would be use of the SRF fund due to lower interest rates, no interim financing needs and financing the project based on the useful life of the project, approximately 20-25 years. We believe the 0% planning and design loan is useful for keeping your utility fund balances in place during the planning of the project. We also believe the SRF gives you the option of financing some, even in a small amount with a general obligation loan that can be paid with sources of revenue other than the utility system. Any of the options above likely require an increase in sewer rates which can be more accurately determined based on the financing method and estimated project cost.