



**D|A DAVIDSON**  
FIXED INCOME CAPITAL MARKETS

IOWA LEAGUE OF CITIES ANNUAL CONFERENCE

## **SRF FINANCE PROCESS**

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DELIVERING AN EXCEPTIONAL EXPERIENCE EACH TIME, FOR EVERY CLIENT  
AND IN A WAY THAT SERVES THE BEST INTERESTS OF THE COMMUNITY.



## OVERVIEW

- **What is “SRF”?**
- **What is a Municipal Advisor (and how can they be helpful) and who else should be involved?**
- **What is the process for securing financing?**
- **What happens after the City receives loan proceeds?**



## WHAT IS “SRF”?

- The State Revolving Fund (“SRF”) is jointly administered by the Iowa Finance Authority (“IFA”) and Department of Natural Resources (“DNR”)
- Exists to provide affordable short and long term financing options for drinking water and wastewater projects for communities across Iowa
- **Two main types of financing:**
  - ✓ Planning and Design Loans are intended to provide short-term financing for the initial phases of a project
  - ✓ Long-Term Water or Sewer Revenue (or General Obligation) loans over a longer period of 20 or 30 years



## PROGRAM OVERVIEW

- **Current long-term interest rates:**
  - ✓ 1.75% for 20 year term | 2.75% for 30 year term
  - ✓ 0.25% annual administration fee
  - ✓ Loans operate with a draw-down mechanism, so the City only borrows what it needs and interest is only paid on funds borrowed to-date
- **Planning and Design loans:**
  - ✓ 0% for up to 3 years
  - ✓ Can be rolled into SRF or other long-term financing option such as USDA-RD loans or bond issue



## WHAT IS A MUNICIPAL ADVISOR?

- Municipal Advisors (MA's) have a fiduciary responsibility, which is to put their clients' financial interests first
- **Municipal advisors typically:**
  - ✓ Assist with the planning and implementation of debt financing
  - ✓ Provide guidance on utility rates, fund balances, and debt service coverage,
  - ✓ Offer analysis on interest rate trends and commentary on financial markets
- **SRF financing requires the use of a Municipal Advisor.**
  - ✓ Adequate time to update financial information, discuss rate increases, plan for future projects, etc. helps ensure success for all parties involved



## USER RATE ANALYSIS

- The City's MA will analyze the City's user rates to determine if they are adequate for meeting current operations and expenditures and also repayment of any current and upcoming debt
- SRF loans require 1.10x (or 1.10%) debt service coverage over net revenues available for debt service
  - ✓ In other words, operating revenues, less operating expenditures divided by the annual debt payment must be at least \$1.10 for every \$1.00 of debt service
- If user rates are not adequate, the MA will work with the City to suggest strategies for increasing user rates



## A RATE INCREASE IS NEEDED...NOW WHAT?

- Once the MA has identified a need for a rate increase, they will provide guidance and options for raising rates

There are a few levers the City can pull to increase rates:

- ✓ Increase base rate: This provides a fairly fixed/known dollar increase to revenues despite users' attempts to lower their bill by lowering usage
- ✓ Increase usage rate: Increased revenues are felt more by higher volume users, and users have more control over how high their bill may go
- ✓ Initiate a Capital Project Surcharge: Similar to the increased base rate, but separated for tracking purposes and optics for users
- ✓ Debt Service Levy: Issuing G.O. instead of Revenue-secured debt allows the City to levy property taxes to repay the loan. Be careful with this option, though





## USER RATES VS. PROPERTY TAX LEVY

- Be mindful of the make up of your community's users and property owners
- Revenue debt is repaid by entities directly using the service
- Example of storage unit owner vs. car wash owner:
  - ✓ Property taxes are levied for water/sewer improvements
  - ✓ Storage unit owner doesn't use much water/sewer, but pays higher property taxes
  - ✓ Car wash owner likely doesn't pay high property taxes, but does have high water/sewer usage
  - ✓ Storage unit taxpayer is subsidizing the car wash



**VENTURA WATER UTILITY  
WATER FUND OPERATING STATEMENT**

**PRELIMINARY: SUBJECT TO CHANGE**

**EXHIBIT 1**

A	B	C	D	E	F	G	H	I	J	
	Historic Revenue Increase %:	26.7%	-9.0%	4.1%				Date Prepared:	4/17/2021	
		Audited			Estimates [1]					
		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
<b>OPERATING REVENUES</b>		Estimated future revenue increase needed:					1.50%	1.50%	1.50%	
Charges for Service	135,655	171,907	156,503	162,842	162,842	162,842	165,285	167,764	170,280	
Capital Project Surcharge	-	-	-	-	-	69,600	69,600	69,600	69,600	
Other Revenue	-	-	-	-	-	-	-	-	-	
<b>Total Operating Revenues</b>	135,655	171,907	156,503	162,842	162,842	232,442	234,885	237,364	239,880	
<b>OPERATING EXPENDITURES</b>		Assumed future expenditure increase:			2.00%	2.00%	2.00%	2.00%	2.00%	
Business Type Activities	85,757	89,114	91,288	101,344	103,371	105,438	105,438	107,547	109,698	
<b>Total Operating Expenditures</b>	85,757	89,114	91,288	101,344	103,371	105,438	105,438	107,547	109,698	
<b>Net Revenues for Debt Service</b>	49,898	82,793	65,215	61,498	59,471	127,004	129,446	129,817	130,182	
<b>Debt Service</b>										
2021 Water Revenue Loan (SRF)	-	-	-	-	-	(115,313)	(115,313)	(115,313)	(115,313)	
<b>Cash Flow After Debt</b>										
Interest on Investments	228	339	1,872	2,625	-	-	-	-	-	
Transfers In/(Out)	-	-	-	-	-	-	-	-	-	
Miscellaneous	-	-	5,537	3,985	-	-	-	-	-	
Capital Projects	-	-	-	(81,959)	-	-	-	-	-	
Bond/Note/Grant Proceeds	-	-	-	-	-	-	-	-	-	
<b>Total Non-Operating Items</b>	228	339	7,409	(75,349)	-	(115,313)	(115,313)	(115,313)	(115,313)	
<b>Annual Surplus / (Deficit)</b>	50,126	83,132	72,624	(13,851)	59,471	11,691	14,134	14,504	14,870	
<b>Debt Service Coverage</b>						1.10 X	1.12 X	1.13 X	1.13 X	
Ending Cash	122,801	205,933	278,557	264,706	324,177	335,868	338,311	350,373	365,243	
Cash as % of OpEx	143.20%	231.09%	305.14%	261.20%	313.61%	318.54%	320.86%	325.79%	332.95%	
<b>Monthly Billing</b>										
Connections					400	400	400	400	400	
Base Rate (5,000 Gals. Included)					\$25.00	\$25.00	\$25.38	\$25.76	\$26.14	
Per Thousand Gals. >5,000					\$5.00	\$5.00	\$5.08	\$5.15	\$5.23	
Capital Project Surcharge						\$14.50	\$14.50	\$14.50	\$14.50	
<b>Average Monthly Bill for 5,000 Gallon User</b>					\$25.00	\$39.50	\$39.88	\$40.26	\$40.64	

[1] Green text is carry-forward from previous year (except where noted).

[2] Approximate estimate of maximum debt service in any one year, assuming 20 year payoff according to SRF estimates & loan of \$1,875,000.

[3] FY2020 Capital Expenditures: Land Earnest Money (205 Hillcrest) \$10,000 + Land Earnest Money (9 Sena St.) \$20,000 + Wellhead Maintenance \$31,732 + Engineering – WTP \$13,227 + Water Tower Climb Cable \$7,000 = \$81,959 extraordinary capital project expenses.



## OTHER PARTIES INVOLVED

- **Municipal Advisor**
  - ✓ Provides financial advice to the City regarding best financing options, assesses existing user fees to ensure adequate net revenues and completes a pro forma financial analysis
- **Bond Counsel**
  - ✓ Ensures the City follows the Iowa Code with regard to legal processes and procedures surrounding the issuance of debt
- **Engineer**
  - ✓ Plans and designs the project, provides cost estimates, facilitates construction bid letting, and oversees project construction process
- **Iowa Finance Authority Staff**
  - ✓ Reviews loan application and supporting materials, approves loans, processes pay requests to disburse loan proceeds



## OTHER PARTIES INVOLVED

- **Grant Administrator**
  - ✓ Assists with application for grant funds such as Community Development Block Grants and other available programs
- **Department of Natural Resources (DNR) Personnel**
  - ✓ Examines and approves project plans to issue permits and ensure compliance with state and federal environmental regulations
- **City Staff and Elected Officials**
  - ✓ Represent their constituents to ensure the best final outcome to the City with the lowest financial impact possible
  - ✓ Consult with their team of professionals to achieve that result



## WHAT IS THE PROCESS FOR SECURING FINANCING?

- **Planning**
  - ✓ City hires an engineer
  - ✓ DNR project manager is assigned
  - ✓ Preparation of facility plan
  - ✓ Planning and design loan application, if needed
- **Intended Use Plan (“IUP”)**
  - ✓ Project must appear on IUP before it can be considered
  - ✓ Updated quarterly
- **Environmental Review**
  - ✓ Impact on natural and cultural resources is evaluated
  - ✓ Must be completed before bid letting and construction



## WHAT IS THE PROCESS FOR SECURING FINANCING?

- **Bid Letting and Construction**
  - ✓ Must meet SRF specifications, including Davis-Bacon Wages
  - ✓ Identify lowest responsive bidder
  - ✓ SRF staff review eligible costs/concurrence with bid award
  - ✓ Construction permit is issued
- **Construction Financing**
  - ✓ Construction loan application outlines cost and amount of financing
  - ✓ Completed with input from the engineer, the MA, and City
  - ✓ Submitted with MA's pro forma financial analysis
  - ✓ Bond counsel assists with public hearing (4 and 20 day notice) and bond resolution



## WHAT IS THE PROCESS FOR SECURING FINANCING?

- **Loan Disbursements**
  - ✓ Closing of SRF loan occurs once the City is prepared to begin construction and has some accumulated invoices it can use to make the first draw on the loan
  - ✓ Made weekly; generally disbursed on Fridays
  - ✓ Must submit disbursement requests by Mondays for Friday receipt
  - ✓ Disbursement requests reviewed by IFA and checked against eligible expenses
  - ✓ Change orders must be submitted to the DNR project manager to verify the additional expenses are acceptable
  - ✓ Requests can be scanned and e-mailed, faxed, or mailed



## AFTER CONSTRUCTION

- Project fund established if one has not already been used
- ACH set up for disbursements and loan payments
- Principal annually, interest and servicing fee semi-annually
- Sinking fund established to facilitate 1/12 of fiscal year debt service payment set aside in monthly installments
- When construction is complete, closeout of the loan includes payment of final invoices and final documents including American Iron and Steel certification, Davis Bacon compliance, etc.
- Final amortization is provided to the City based on actual amount drawn
- City's MA asked to update its original pro forma projections every five years to ensure the City is meeting the minimum 1.10x debt service coverage requirement
- Ensures ongoing financial health of the utility and keeps the City connected with its team of professionals to provide additional assistance should the need arise





## TIPS, TACTICS, AND FAQ

- Be aware of funds spent from City fund balances before pursuing loan funds
  - ✓ Ask if you might need a parameters resolution
- Can a City use G.O. debt service levy to repay SRF loans?
- Can a City use TIF revenues to repay SRF loans?



## QUESTIONS?

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