



TO: Michael C. Van Milligen, City Manager

FROM: Jennifer Larson, Budget Director

SUBJECT: Resolutions for the Bond Purchase Agreement and the Master Resolution in Connection with the Issuance of Sales Tax Increment Revenue Bonds (Unlimited Property Tax Supported), Second Lien Series 2014A

DATE: May 14, 2014

INTRODUCTION

The purpose of this memorandum is to request approval of the resolution approving the form and authorizing execution of a Bond Purchase Agreement and the approval of the Master Resolution authorizing the issuance of the initial series of bonds in connection with the issuance of Sales Tax Increment Revenue Bonds (Unlimited Property Tax Supported), Second Lien Series 2014A.

BACKGROUND

The Bee Branch Watershed, which includes the City's most developed areas where over 50% of city residents either live or work, has experienced repeated flooding impacting thousands of properties and over seventy businesses. Six Presidential Disaster Declarations have been issued since 1999 as a result of flood damage to public and private property.

In 2012 the State of Iowa Flood Mitigation Program (Program) was created. It established two possible funding sources for flood mitigation projects: a Flood Mitigation Fund and a Sales Tax Increment Fund. To date, no funds have been appropriated for the Flood Mitigation Fund. The Sales Tax Increment Fund is to consist of the increase in the state share of the sales tax revenues from communities with qualifying applications. The maximum state share of sales tax increment that can be diverted from the state and used instead for flood mitigation projects is \$30 million per year for twenty (20) years or a total of \$600 million. The maximum award for any qualifying single community is \$15 million per year. To qualify for sales tax increment funding, federal financial assistance must have been secured for the project. A local match is also required and the state sales tax increment cannot exceed 50% of the total project cost. In April of 2013 the State Flood Mitigation Program Board (the Board) was established. And at its third meeting in July of 2013, the Board adopted the administrative rules for the Program.

In 2013, the City Council adopted the Drainage Basin Master Plan authored by HDR Engineering that outlines improvements to mitigate flooding. Collectively, the 12-phase project is referred to as the Bee Branch Watershed Flood Mitigation Project.

In November of 2013 the City Council adopted Resolution 336-13 authorizing the City's application to the State for the use of up to \$98,494,178.00 in sales tax increment funds for the Bee Branch Watershed Flood Mitigation Project. The City's application included a Project Plan

that included information about the various phases of the project, the schedule for construction, and a financing plan.

On December 4, 2013, the Iowa Flood Mitigation Board approved the City's application and use of \$98,494,178.00 in state sales tax increment funds for the Bee Branch Watershed Flood Mitigation Project.

In February of 2014, the City Council adopted Resolution 31-14 authorizing the execution of an agreement with the Iowa Flood Mitigation Board binding the City to the terms of the agreement as required for the City's receipt of up to \$98,494,178.00 in state sales tax increment funds for the Bee Branch Watershed Flood Mitigation Project through the State Flood Mitigation Program. The City's application (and associated Project Plan) was established as an integral part of the agreement.

The following table shows the projected uses of the sales tax increment revenue by the City:

Table 1
Bee Branch Watershed Flood Mitigation
Estimated Sales Tax Increment Uses

Project Funding Source	Estimated Sales Tax Increment
U.S. EPA Clean Water SRF loan repayment	\$24,491,634
Sales Tax Increment Bond interest, issuance fees & reserve	\$21,880,000
Flood Gate Replacements	\$2,099,000
Lower Bee Branch	\$362,243
Upper Bee Branch & Culvert	\$20,680,809
Permeable Pavement Alleys	\$8,760,492
North End Storm Sewer Improvements	\$1,160,000
22 nd Street Storm Sewer Improvements	\$3,380,000
Flood Control Maintenance Facility	\$4,360,000
Water Plant Flood Control	\$3,800,000
17 th Street Storm Sewer	\$7,520,000
Total Project Funding Source	\$98,494,178
Percent of Total Cost	49.02%

DISCUSSION

Through the agreement with the Iowa Flood Mitigation Board, the City will receive up to \$98,494,178.00 in sales tax increment revenue over a twenty-year period per the schedule outlined in the City's Project Plan. There is a three month delay from the time sales tax quarterly returns are submitted to the Iowa Department of Revenue and when the sales tax increment is remitted to the City of Dubuque. The first sales tax increment revenue receipt is projected to be received on July 15, 2014. Subsequent receipts will be received every three months.

The estimated sales tax increment revenue receipts for the City are shown in following table.

Table 2
Estimated Sales Tax Increment Revenue Receipts to
City of Dubuque

Fiscal Year	Estimated Sales Tax Increment Revenue Receipts
2015	\$1,068,677
2016	\$1,786,625
2017	\$2,518,644
2018	\$3,265,011
2019	\$4,026,006
2020	\$4,801,918
2021	\$5,593,037
2022	\$6,399,662
2023	\$6,869,796
2024	\$6,956,900
2025	\$6,956,900
2026	\$6,952,300
2027	\$6,952,300
2028	\$6,947,494
2029	\$6,713,458
2030	\$6,238,500
2031	\$5,738,500
2032	\$4,328,480
2033	\$3,032,469
2034	\$1,347,501
Total	\$98,494,178

In order to allow for constructing flood mitigation improvements as soon as possible, the Iowa Flood Mitigation Program specifically allowed for communities to issue debt, build the improvements, and abate the debt using the annual sales tax increment payments from the State. This creates the opportunity for cities to sell Sales Tax Increment Revenue Bonds.

The City's Project Plan outlines issuing \$90 million in debt in order to construct nine of the twelve phases of the Bee Branch Watershed Flood Mitigation Project by 2020 with the debt to be abated primarily with the State Sales Tax Increment Revenue. City Stormwater Management Utility Fees will also be used to retire debt.

The project plan does allow the flexibility to adjust the project schedule and the need for debt. Therefore, the City has been working with its bond counsel, financial advisor, and the underwriter for the Sales Tax Increment Revenue Bond to establish the details of the first debt issuances.

The first two proposed debt issuances for the Bee Branch Watershed Flood Mitigation Project are the \$7.8 million Series 2014A Sales Tax Increment Revenue Bond and a \$29 million U.S. EPA Clean Water SRF. In late FY 2015, an estimated \$16.5 million Sales Tax Increment Revenue Bond will be issued. Collectively, the first three debt issuances will provide the necessary funding to complete the Bee Branch Creek Restoration Project and the Flood Mitigation Gate Replacement Project which involves the replacement of the gate structure

where the Bee Branch Creek flows into the Peosta Channel. The gate structure works in conjunction with the John C. Culver Floodwall/Levee System that provides the City protection from the Mississippi River when it is above flood stage. Consistent with the Project Plan, the need for additional debt is anticipated in future years. This will likely be a combination of U.S. EPA Clean Water SRF and General Obligation Bonds to be abated with revenue from the Stormwater Management Utility Fee. However, the Project Plan allows the City the ability to reduce the need for future debt should the initial debt financing have lower than anticipated interest costs or project costs come in lower than estimated.

The following table shows that the State Sales Tax Increment Revenue will cover the principal and interest payments for the first three debt issuances.

Table 3
Estimated Sales Tax Increment Revenues and Anticipated Debt Service Requirements

Fiscal Year	Estimated Sales Tax Increment		\$29M		Sales Tax Increment	Cumulative Sales Tax Increment
	Revenue	Receipts	Series 2014A	Series 2014B		
2015	\$1,068,677	\$0	(\$320,000)	\$0	\$748,677	\$748,677
2016	\$1,786,625	\$0	(\$1,587,274)	\$0	\$199,351	\$948,028
2017	\$2,518,644	(\$276,902)	(\$1,586,821)	\$0	\$654,921	\$1,602,949
2018	\$3,265,011	(\$276,902)	(\$1,586,358)	(\$677,330)	\$724,421	\$2,327,370
2019	\$4,026,006	(\$276,902)	(\$1,585,887)	(\$677,330)	\$1,485,887	\$3,813,257
2020	\$4,801,918	(\$276,902)	(\$1,585,405)	(\$677,330)	\$2,262,281	\$6,075,538
2021	\$5,593,037	(\$276,902)	(\$1,584,915)	(\$677,330)	\$3,053,890	\$9,129,428
2022	\$6,399,662	(\$276,902)	(\$1,584,414)	(\$677,330)	\$3,861,016	\$12,990,444
2023	\$6,869,796	(\$451,902)	(\$1,583,903)	(\$677,330)	\$4,156,661	\$17,147,105
2024	\$6,956,900	(\$1,428,152)	(\$1,583,383)	(\$3,152,330)	\$793,035	\$17,940,140
2025	\$6,956,900	(\$1,425,152)	(\$1,582,851)	(\$3,153,580)	\$795,317	\$18,735,457
2026	\$6,952,300	(\$1,428,824)	(\$1,582,310)	(\$3,152,640)	\$788,526	\$19,523,983
2027	\$6,952,300	(\$1,424,668)	(\$1,581,757)	(\$3,149,692)	\$796,183	\$20,320,166
2028	\$6,947,494	(\$1,427,742)	(\$1,581,193)	(\$3,154,288)	\$784,271	\$21,104,437
2029	\$6,713,458	(\$1,427,886)	(\$1,580,618)	(\$3,151,142)	\$553,812	\$21,658,249
2030	\$6,238,500	\$0	(\$1,580,031)	\$0	\$4,658,469	\$26,316,718
2031	\$5,738,500	\$0	(\$1,579,433)	\$0	\$4,159,067	\$30,475,785
2032	\$4,328,480	\$0	(\$1,633,358)	\$0	\$2,695,122	\$33,170,907
2033	\$3,032,469	\$0	(\$1,771,487)	\$0	\$1,260,982	\$34,431,889
2034	\$1,347,501	\$0	\$0	\$0	\$1,347,501	\$35,779,390
Total	\$98,494,178	(\$10,675,738)	(\$29,061,398)	(\$22,977,652)	\$35,779,390	

*The first quarterly sales tax increment revenue will be received on July 15, 2014.

The US EPA SRF loan funding is administered by the Iowa Department of Natural Resources (IDNR) with assistance from the Iowa Finance Authority (IFA). It carries a pre-established, low interest rate and instead of being dispersed all up-front in a lump sum payment, the funds are dispersed as expended. The US EPA SRF loans have an attractive interest rate of 2.00% for a twenty year loan whereas a general obligation bond has an estimated interest rate of approximately 3.50%. The City will issue as much of the necessary debt in the form of the US EPA SRF loans instead of General Obligation Bonds. Not all project elements are eligible for funding through US EPA SRF.

The City has instituted six measures to mitigate the risk that actual state sales tax increment revenue is less than estimated.

First, the projected state sales tax growth was calculated using historic taxable retail sales for the past ten years provided by the Iowa Department of Revenue. The rate of change each year was calculated, and the ten year average growth rate of 1.97% was then used to project future sales tax increment growth by year. The City's financial advisor, Piper Jaffray, concluded that use of historical sales tax growth average for purposes of projections is a responsible basis for calculating the sales tax increment growth.

Second, the City minimized debt service payments until significant sales tax increment revenue is available. The Sales Tax Increment Revenue Bonds issued in Fiscal Year 2014 and 2015 will capitalize interest for the first two years and will have no principal payments until Fiscal Year 2023. The \$29 million U.S. EPA SRF loan will have interest and principal payments beginning in Fiscal Year 2015 based on how much has been drawn down from the loan.

Third, the Project Plan outlined that some project elements will be done on a pay-as-you-go basis over a 20-year period to create more flexibility. The plan allows the City to adjust the timing of the Bee Branch Watershed improvements and complete them as funding becomes available.

The following table shows the amount of sales tax increment and stormwater user fees committed to pay-as-you-go projects as part of the Bee Branch Watershed project. The Estimated Sales Tax Increment after Debt Service column (column 2) is the same as the Sales Tax Increment Balance after Debt Service (column 6) in Table 3.

Table 4
Estimated Funding Available for Debt and Capital Improvements

Fiscal Year	Estimated Sales Tax Increment After Debt Service	Stormwater Utility Committed to Bee Branch Watershed	Total \$\$ Available for Capital Projects	Cumulative Total \$\$ Available for Capital Projects
2015	\$748,677	\$0	\$748,677	\$748,677
2016	\$199,351	\$8,050	\$207,401	\$956,078
2017	\$654,921	\$8,050	\$662,971	\$1,619,049
2018	\$724,421	\$346,050	\$1,070,471	\$2,689,520
2019	\$1,485,887	\$332,050	\$1,817,937	\$4,507,457
2020	\$2,262,281	\$998,050	\$3,260,331	\$7,767,788
2021	\$3,053,890	\$1,404,050	\$4,457,940	\$12,225,728
2022	\$3,861,016	\$1,379,050	\$5,240,066	\$17,465,794
2023	\$4,156,661	\$1,428,050	\$5,584,711	\$23,050,505
2024	\$793,035	\$1,761,313	\$2,554,348	\$25,604,853
2025	\$795,317	\$2,143,899	\$2,939,216	\$28,544,069
2026	\$788,526	\$2,583,250	\$3,371,776	\$31,915,845
2027	\$796,183	\$2,545,384	\$3,341,567	\$35,257,412
2028	\$784,271	\$2,670,937	\$3,455,208	\$38,712,620
2029	\$553,812	\$3,048,196	\$3,602,008	\$42,314,628
2030	\$4,658,469	\$3,101,000	\$7,759,469	\$50,074,097
2031	\$4,159,067	\$3,322,000	\$7,481,067	\$57,555,164
2032	\$2,695,122	\$3,681,000	\$6,376,122	\$63,931,286
2033	\$1,260,982	\$1,600,000	\$2,860,982	\$66,792,268
2034	\$1,347,501	\$0	\$1,347,501	\$68,139,769
Total	\$35,779,390	\$32,360,379	\$68,139,769	

Fourth, there will be additional Stormwater Management Utility Fee Revenue, not specifically identified for the Bee Branch Watershed Flood Mitigation Project, which could be used to make debt payments. This would involve delaying or canceling other Stormwater Management capital projects that would not be both time sensitive and critical in nature.

The following table shows the additional funding that would become available if other capital projects are delayed or canceled due to actual project costs higher than projected or sales tax increment revenue is lower than projected. The Funding Committed to Bee Branch Watershed Available for Debt Service column (column 2) is the same as the Total \$\$ Available for Capital Projects column (column 4) in Table 4.

Table 5
Cumulative Sales Tax Increment Revenue & Stormwater Utility Fee Revenue Available for Debt Service

Fiscal Year	Funding Committed to Bee Branch Watershed Available for Debt Service	Non-Bee Branch Watershed Capital Projects Funded By Stormwater	Cumulative \$ Available for Debt Service
2015	\$748,677	\$923,251	\$1,671,928
2016	\$207,401	\$1,061,003	\$2,940,332
2017	\$662,971	\$1,365,953	\$4,969,256
2018	\$1,070,471	\$1,380,763	\$7,420,490
2019	\$1,817,937	\$1,770,581	\$11,009,008
2020	\$3,260,331	\$1,508,818	\$15,778,157
2021	\$4,457,940	\$1,557,598	\$21,793,695
2022	\$5,240,066	\$1,765,935	\$28,799,696
2023	\$5,584,711	\$1,815,222	\$36,199,629
2024	\$2,554,348	\$1,731,115	\$40,485,092
2025	\$2,939,216	\$1,585,528	\$45,009,836
2026	\$3,371,776	\$1,516,789	\$49,898,401
2027	\$3,341,567	\$1,614,850	\$54,854,818
2028	\$3,455,208	\$1,596,972	\$59,906,998
2029	\$3,602,008	\$1,759,349	\$65,268,355
2030	\$7,759,469	\$1,902,029	\$74,929,853
2031	\$7,481,067	\$1,917,026	\$84,327,946
2032	\$6,376,122	\$2,024,968	\$92,729,036
2033	\$2,860,982	\$4,253,953	\$99,843,971
2034	\$1,347,501	\$5,973,498	\$107,164,970
Total	\$68,139,769	\$39,025,201	

Fifth, instead of issuing the \$24.3 million Sales Tax Revenue Bond in one bond issuance as originally planned, the City is issuing two separate Sales Tax Increment Revenue Bond issuances. The first \$7.8 million Sales Tax Increment Revenue Bond will be sold in June 2014. The second \$16.5 million Sales Tax Increment Revenue Bond would be issued in late Fiscal Year 2015. The City will have actual sales tax increment receipts beginning on July 15, 2014. If the actual sales tax increment receipts are not as projected, the City will have the opportunity to adjust the amount of the second sales tax increment revenue bond to reflect the revised sales tax increment revenue.

Sixth, the \$7.8 million Series 2014A Sales Tax Increment Revenue Bonds are payable from sales tax increment revenue and backed by the full faith and credit of the City. In the event that the Sales Tax Increment Revenues are insufficient to pay principal and interest, the City has the ability to use property tax to make future debt payments; however the previous five risk

mitigation factors would prevent the need for property tax dollars ever being used to pay the debt payments on the sales tax increment debt.

The Series 2014A Sales Tax Increment Revenue Bonds are the first of its kind being sold in the Iowa Market. Financing for the project was reviewed by the City's financial advisor, Piper Jaffray. In addition, the bond structure, timing and marketing of the bonds was reviewed by the City's underwriter, R.W. Baird.

The Bond Purchase Agreement is between the City of Dubuque and the City's underwriter, Robert W. Baird & Co., in connection with the Series 2014A Sales Tax Increment Revenue Bonds. The Bond Purchase Agreement is a legally binding document between the bond issuer (City) and the underwriter (Baird) establishing the terms of the bond sale. The terms of a bond purchase agreement includes sale conditions, sales price, bond interest rate, bond maturity, bond redemption provisions, sinking fund provisions and conditions under which the agreement may be canceled. After the issuer delivers the bonds to the underwriter and the underwriter pays the issuer for them, the underwriter will put the bonds on the market at the price and yield established in the bond purchase agreement and investors will purchase the bonds from the underwriter. The underwriter collects the proceeds from the sale and earns a profit based on the difference between the price at which it purchased the bonds and the price at which it sells the bonds.

The Master Resolution establishes the different funds/accounts and covenants that will be used for all future Sales Tax Increment Bonds. The Master Resolution also includes the particular details of the Series 2014A Bonds, found in Section 2.2 of the resolution. The Master Resolution also has a number of blank spaces in it that will be completed once the specific terms of the Series 2014A are established on May 19, 2014. The City Council will be provided the completed version during the City Council meeting on May 19, 2014.

RECOMMENDATION

I respectfully recommend the adoption of the enclosed resolutions approving the Bond Purchase Agreement and the Master Resolution in connection with the issuance of Sales Tax Increment Revenue Bonds (Unlimited Property Tax Supported), Second Lien Series 2014A.

JML
Attachments

cc: Barry Lindahl, City Attorney
Cindy Steinhauser, Assistant City Manager
Teri Goodmann, Assistant City Manager
Ken TeKipper, Finance Director
Gus Psihoyos, City Engineer