

TO: The Honorable Mayor and City Council Members

FROM: Michael C. Van Milligen, City Manager

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

Budget Director Jennifer Larson is recommending City Council approval of 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.

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 was created.

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.

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.

Through the agreement with the Iowa Flood Mitigation Board, the City will receive up to \$98,494,178.00 in state sales tax increment revenue over a twenty-year period per the schedule outlined in the City's Project Plan. The first sales tax increment revenue receipt is projected to be received on July 15, 2014. Subsequent receipts will be received every three months.

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 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. Consistent with the Project Plan, the need for additional debt is anticipated in future years. 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 State Sales Tax Increment Revenue will cover the principal and interest payments for the first three debt issuances.

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 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.

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.

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. The Preliminary Official Statement has been reviewed by City Staff, bond underwriter R.W. Baird and their bond counsel, financial advisor Piper Jaffray and their bond counsel and City bond counsel Bill Noth.

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.

I concur with the recommendation and respectfully request Mayor and City Council approval.



Michael C. Van Milligen

MCVM/jml
Attachment

cc: Barry Lindahl, City Attorney
Cindy Steinhauser, Assistant City Manager
Teri Goodmann, Assistant City Manager
Jennifer Larson, Budget Director
Kenneth TeKippe, Finance Director
Gus Psihoyos, City Engineer