



TO: Michael C. Van Milligen, City Manager
FROM: Jennifer Larson, Budget Director
SUBJECT: Proceedings to Set Public Hearing on the Issuance of Not to Exceed \$24,500,000 Sales Tax Increment Revenue Bonds (Flood Mitigation Program)
DATE: April 15, 2015

INTRODUCTION

The purpose of this memorandum is to recommend the setting of a public hearing on the proposal to issue Sales Tax Increment Revenue Bonds, for the purpose of providing funds to pay costs of carrying out the flood mitigation projects previously approved by the City Council. A letter from attorney Bill Noth detailing information on the bond hearing is enclosed.

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. 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.

On April 13, 2015, the Iowa Flood Mitigation Board approved the City's requested funding agreement amendment to provide an additional \$5 million in sales tax increment in Fiscal Years 2014 through 2018 and remove \$5 million in sales tax increment from Fiscal Years 2031 through 2033. This request was approved because the City's actual sales tax collection growth in Fiscal Year 2014 was 5.20%, well above the projected growth of 1.97%. As a result, 70% of the actual sales tax increment collected in Fiscal Year 2014 was \$882,784. When the actual Fiscal Year 2014 sales tax growth is considered, the ten year historic sales tax growth rate is 2.15%. As a result, the available sales tax increment funding is projected to be more in each subsequent fiscal year than anticipated and what was reflected in the original funding 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 six 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 was received on September 2, 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	\$1,784,299
2016	\$3,084,781
2017	\$3,915,672
2018	\$4,764,427
2019	\$4,764,911
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	\$4,397,435
2032	\$2,184,888
2033	\$1,500,000
2034	\$715,500
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 debt issuance for the Bee Branch Watershed Flood Mitigation Project was issued as a Sales Tax Increment Revenue Bond backed by the full faith and credit of the City of Dubuque for \$7.2 million on May 19, 2014 (Series 2014A). The second Sales Tax Increment Revenue bond issuance for an estimated \$20.4 million will be sold on May 18, 2015 and will be subject to annual appropriation by City Council and will not be backed by the full faith and credit of the City of Dubuque. In addition, a \$29 million U.S. EPA Clean Water SRF loan will also be issued with

the loan finalized on May 18, 2015. 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 Revenue Receipts	\$7.2M Series 2014A Debt Service	\$20.7M* Series 2015A Debt Service	\$29M Series 2015B SRF Loan Debt Service	Sales Tax Increment Balance after Debt Service	Cumulative Sales Tax Increment Balance after Debt Service
2015	\$1,784,299	\$0	\$0	(\$1,517,265)	\$267,034	\$267,034
2016	\$3,084,781	\$0	\$0	(\$1,517,265)	\$1,567,516	\$1,834,550
2017	\$3,915,672	(\$323,100)	\$0	(\$1,517,265)	\$2,075,307	\$3,909,857
2018	\$4,764,427	(\$323,100)	(\$877,900)	(\$1,517,265)	\$2,046,162	\$5,956,019
2019	\$4,764,911	(\$323,100)	(\$877,900)	(\$1,517,265)	\$2,046,646	\$8,002,665
2020	\$4,801,918	(\$323,100)	(\$877,900)	(\$1,517,265)	\$2,083,653	\$10,086,318
2021	\$5,593,037	(\$323,100)	(\$877,900)	(\$1,517,265)	\$2,874,772	\$12,961,090
2022	\$6,399,662	(\$323,100)	(\$877,900)	(\$1,517,265)	\$3,681,397	\$16,642,487
2023	\$6,869,796	(\$438,100)	(\$2,512,900)	(\$1,517,265)	\$2,401,531	\$19,044,018
2024	\$6,956,900	(\$1,393,500)	(\$2,517,500)	(\$1,517,265)	\$1,528,635	\$20,572,653
2025	\$6,956,900	(\$1,400,500)	(\$2,512,250)	(\$1,517,265)	\$1,526,885	\$22,099,538
2026	\$6,952,300	(\$1,344,250)	(\$2,513,000)	(\$1,517,265)	\$1,577,785	\$23,677,323
2027	\$6,952,300	(\$1,363,000)	(\$2,514,250)	(\$1,517,265)	\$1,557,785	\$25,235,108
2028	\$6,947,494	(\$1,365,000)	(\$2,515,750)	(\$1,517,265)	\$1,549,479	\$26,784,587
2029	\$6,713,458	(\$1,365,000)	(\$2,512,250)	(\$1,517,265)	\$1,318,943	\$28,103,530
2030	\$6,238,500	\$0	(\$2,513,750)	(\$1,517,265)	\$2,207,485	\$30,311,015
2031	\$4,397,435	\$0	(\$2,514,750)	(\$1,517,265)	\$365,420	\$30,676,435
2032	\$2,184,888	\$0	\$0	(\$1,517,265)	\$667,623	\$31,344,058
2033	\$1,500,000	\$0	\$0	(\$1,517,265)	(\$17,265)	\$31,326,793
2034	\$715,500	\$0	\$0	(\$1,517,265)	(\$801,765)	\$30,525,028
2035	\$0	\$0	\$0	(\$1,517,265)	(\$1,517,265)	\$29,007,763
2036	\$0	\$0	\$0	(\$1,517,265)	(\$1,517,265)	\$27,490,498
Total	\$98,494,178	(\$10,607,950)	(\$27,015,900)	(\$33,379,830)	\$27,490,498	

*Based on A1 pricing provided by R.W. Baird

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 actual sales tax collection growth in Fiscal Year 2014 was 5.20%, well above the projected growth of 1.97%. As a result, 70% of the actual sales tax increment collected in Fiscal Year 2014 was \$882,784. When the actual Fiscal Year 2014 sales tax growth is considered, the ten year historic sales tax growth rate is 2.15%. The City was advised that the 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	\$267,034	\$0	\$267,034	\$267,034
2016	\$1,567,516	\$8,050	\$1,575,566	\$1,842,600
2017	\$2,075,307	\$14,700	\$2,090,007	\$3,932,607
2018	\$2,046,162	\$194,139	\$2,240,301	\$6,172,908
2019	\$2,046,646	\$365,149	\$2,411,795	\$8,584,703
2020	\$2,083,653	\$35,660	\$2,119,313	\$10,704,016
2021	\$2,874,772	\$411,145	\$3,285,917	\$13,989,933
2022	\$3,681,397	\$545,124	\$4,226,521	\$18,216,454
2023	\$2,401,531	\$436,884	\$2,838,415	\$21,054,869
2024	\$1,528,635	\$643,107	\$2,171,742	\$23,226,611
2025	\$1,526,885	\$603,612	\$2,130,497	\$25,357,108
2026	\$1,577,785	\$1,111,961	\$2,689,746	\$28,046,854
2027	\$1,557,785	\$1,168,751	\$2,726,536	\$30,773,390
2028	\$1,549,479	\$894,424	\$2,443,903	\$33,217,293
2029	\$1,318,943	\$1,234,024	\$2,552,967	\$35,770,260
2030	\$2,207,485	\$997,837	\$3,205,322	\$38,975,582
2031	\$365,420	\$1,150,079	\$1,515,499	\$40,491,081
2032	\$667,623	\$1,412,710	\$2,080,333	\$42,571,414
2033	(\$17,265)	\$1,184,946	\$1,167,681	\$43,739,095
2034	(\$801,765)	\$1,453,698	\$651,933	\$44,391,028
2035	(\$1,517,265)	\$0	(\$1,517,265)	\$42,873,763
2036	(\$1,517,265)	\$0	(\$1,517,265)	\$41,356,498
Total	\$27,490,498	\$13,866,000	\$41,356,498	

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	\$267,034	\$923,251	\$1,190,285
2016	\$1,575,566	\$1,234,199	\$4,000,050
2017	\$2,090,007	\$1,136,958	\$7,227,015
2018	\$2,240,301	\$1,188,827	\$10,656,143
2019	\$2,411,795	\$1,184,836	\$14,252,774
2020	\$2,119,313	\$1,076,600	\$17,448,687
2021	\$3,285,917	\$1,052,660	\$21,787,264
2022	\$4,226,521	\$993,176	\$27,006,961
2023	\$2,838,415	\$1,093,081	\$30,938,457
2024	\$2,171,742	\$1,028,717	\$34,138,916
2025	\$2,130,497	\$1,199,454	\$37,468,867
2026	\$2,689,746	\$1,073,333	\$41,231,946
2027	\$2,726,536	\$1,089,779	\$45,048,261
2028	\$2,443,903	\$1,205,212	\$48,697,376
2029	\$2,552,967	\$1,139,350	\$52,389,693
2030	\$3,205,322	\$1,326,412	\$56,921,427
2031	\$1,515,499	\$1,179,923	\$59,616,849
2032	\$2,080,333	\$1,208,304	\$62,905,486
2033	\$1,167,681	\$1,325,030	\$65,398,197
2034	\$651,933	\$1,257,072	\$67,307,202
2035	(\$1,517,265)	\$1,457,280	\$67,247,217
2036	(\$1,517,265)	\$1,278,530	\$67,008,482
Total	\$41,356,498	\$25,651,984	

Fifth, instead of issuing the \$27.7 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 \$7.2 million Sales Tax Increment Revenue Bond was sold in May 2014. The second \$20.5 million Sales Tax Increment Revenue Bond will be issued May 18, 2015.

Sixth, the first \$7.2 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 significantly reduce the likelihood of property tax dollars ever being used to pay the debt payments on the sales tax increment debt. In addition, the second \$20.5

million Series 2015A Sales Tax Increment Revenue bonds are payable from sales tax increment revenue and will have a bond reserve fund to cover the highest year of debt service in the event that the Sales Tax Increment Revenues are insufficient to pay principal and interest.

The Series 2015A 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, Independent Public Advisors, LLC and the City's Bond Counsel, Ahlers and Cooney. In addition, the bond structure, timing and marketing of the bonds was reviewed by the City's underwriter, R.W. Baird.

RECOMMENDATION

I respectfully recommend the adoption of the enclosed resolution fixing the date of May 4, 2015 for a public hearing on the proposition of selling not to exceed \$24,500,000 Sales Tax Increment Revenue Bonds (Flood Mitigation Program) and providing publication of notice.

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