

ITEM # 27
DATE: 03-06-18

COUNCIL ACTION FORM

SUBJECT: PUBLIC HEARING AND NOTICE OF INTENT TO ISSUE \$8,525,000 ESSENTIAL AND ESSENTIAL CORPORATE PURPOSE GENERAL OBLIGATION BONDS, AND ASSOCIATED TAX LEVY FOR DEBT SERVICE

BACKGROUND:

The FY 2018/19 budget includes a number of General Obligation (G.O.) Bond-funded capital improvements. A public hearing is required to authorize issuance of bonds and the levy of property taxes for debt to be issued. The dollar amounts and corresponding property tax levy for the planned G.O. bond issue are included as part of the FY 2018/19 budget. City Council set March 6, 2018 as the date of the public hearing for issuance of the bonds.

The G.O. Bonds and debt service levy for the FY 2018/19 budget are based on projects listed in the table below. Council authorization will be required at a later date to authorize the sale of the bonds. Bonds are expected to be issued shortly after the start of the new fiscal year.

Per the Iowa Code, the City may issue bonds both for “essential corporate purposes” and “general corporate purposes”. The types of projects that can be funded for “general” or “essential” purposes are defined in the Iowa Code. Bonds issued for general corporate purposes are limited to an annual issuance of \$700,000 and are subject to a reverse referendum. In past years, the City has rarely issued bonds for general corporate purposes; the last instance was in 2011 for improvements to City Hall. With the shifting of certain capital projects for City facilities away from Local Option Tax funding to General Obligation bonds, issuance of bonds for general corporate purposes will become more common. The current CIP includes bonds for general purposes in FY 20/21 and FY 22/23.

For the upcoming issue, the \$137,000 Fire Station #1 Concrete Replacement project falls into the general corporate purpose category. Council will actually hold two hearings, one for the bonds to fund essential corporate purpose projects and one for general corporate purpose projects. Once hearings are held, bonds are sold together in a single offering.

Please note that in addition to the amount to fund the \$7,987,000 in G.O. Bond-funded capital projects, the not-to-exceed amount for the issuance includes a \$538,000 (\$13,000 for general purposes and \$525,000 for essential purposes) additional authorization to allow for issuance costs and the option to sell our bonds at a premium over the face value of bonds. This will allow the City to accept an optimum bid with face value of bonds greater than the \$7,987,000 needed to accomplish our projects. In any

case, debt will not be issued in an amount where debt service exceeds the property tax levy included in the proposed budget. The proposed bond issue complies with the Council approved debt policy.

The Capital Improvements Plan’s 2018/19 G.O. Bond issue includes the following:

City-Wide Radio System	\$1,000,000	
Grand Avenue Extension	3,700,000	
Fire Station #1 Concrete Replacement Gen. Corp Purp.	137,000	
Collector Street Pavement Improvements	1,750,000	
Asphalt Street Improvements	1,400,000	
Subtotal Tax Supported Bonds		\$ 7,987,000
Issuance Cost and Allowance for Premium		538,000
Grand Total – 2018/19 G.O. Issue		\$ 8,525,000

ALTERNATIVES:

1. Hold public hearings to authorize the issuance of Essential Corporate Purpose General Obligation Bonds in an amount not to exceed \$8,375,000 and General Corporate Purpose General Obligation bonds in an amount not to exceed \$150,000. After the public hearing and approval of the bond issuance totaling \$8,525,000, a property tax pre-levy resolution to pay principal and interest on the bonds is required.
2. Reject the action to approve the bond issue and levy of taxes. Rejection of the bond issue and levy of taxes will prevent the City from completing the bond-funded projects reflected in the CIP.

MANAGER’S RECOMMENDED ACTION:

Prior to the issuance of debt, state law requires that a public hearing be held and that a pre-levy resolution be adopted for bonds not yet issued to be repaid from the property tax levy. This is a required step in order to accomplish the Council’s approved capital improvements for the upcoming fiscal year.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby after the public hearing, the council authorize the issuance of Essential and General Corporate Purpose General Obligation Bonds and in an amount not to exceed \$8,525,000.