

Earlham, Iowa

Capital Projects – Preliminary Financing Information

Date Prepared: September 24, 2018

Option 4 Illustration

FINANCIAL SUMMARY – “FACTS”

Valuations as of 1/1/2017 (FY19)

- Actual 100%: 77,800,270
 - Used for debt limit
 - Growth since 2003: 3.07%
- Taxable: 45,967,965
 - Used for levy calculations
 - Growth since 2003: 3.41%

Outstanding Debt as of 07/01/2018

- General Obligation Bond Debt
 - Principal \$429,000
 - Payments through 2022
 - Paid with Taxes, Sewer, TIF
 - Total Payment FY19: \$216,280
 - Net Payment FY19: \$55,148
 - Levy Rate in FY19: \$1.20/\$1000
- Water Debt
 - Principal: \$815,000
 - Payments through 2034
 - Annually approx. \$66,000
- Sewer Debt
 - Principal: N/A
 - Payments through _____
 - Annually approx. N/A

Constitutional Debt Limit

- 5% of Actual 100% Valuation
- Is not directly linked to “bonding capacity”, but may limit the amount that can be borrowed
- Can grow over time based on valuation growth and paying off existing debt
- Calculation as of 07/01/2018
 - Limit: \$3,890,014
 - Outstanding: \$429,000
 - Margin: **\$3,461,014**

CAPITAL PLAN – “THE PROJECT”

Based on information that we have received on your project, it is our understanding that the City is considering multiple projects in its capital improvement planning processing plan, including a Water Tower (estimated at \$1,200,000) and Wastewater system improvements (estimated at \$3,800,000)

FINANCING CONSIDERATIONS

Options for Infrastructure Financing

- Cash on Hand / Grants
- General Obligation Bonds (Paid with Property Taxes)
- General Obligation Bonds (Paid with Other Revenues)
- Water Revenue Bonds or Notes (Paid with Water Revenues)
- TIF Revenue Bonds or Notes (Paid with TIF Revenues)
- Sewer Revenue Bonds or Notes (Paid with Sewer Revenues)
- Local Option Sales Tax Revenue Bonds (Paid with LOST Revenues)
- Annual Appropriation General Obligation Bonds (Paid with Property Taxes or Other Revenues)

Other Notes

- General Obligation debt, TIF Revenue debt, and Local Option Sales Tax revenue debt **does count** against the City’s constitutional debt limit
- Utility revenue debt **does not count** against the City’s constitutional debt limit, but will require rate covenants and potentially debt reserve funds (non-SRF)
- Annual appropriation debt **does not count** against the City’s constitution debt limit, **except** for the amount that have been appropriated for payment (typically the current year’s payment). The SRF program does not support this type of debt
- Current rate structures through the SRF program are for a maximum of 20 years, assuming level payments, with a interest rate of 1.75% and a 0.25% administration fee (net rate of 2.00%). General Obligation debt cannot be annual appropriation through the SRF program. The program offers 30 year debt at a higher interest rates (net 3.00%), unless the City qualifies as a “disadvantaged community” (in which case you are still eligible for the net rate of 2.00%)

Existing Annual Resources for future usage consideration

- Debt Service Levy (used to repay GO Bonds): \$55,148 after FY2022
- Sewer Revenues: N/A
- Water Revenues: N/A
- TIF Revenues: N/A (prior area expiration)
- LOST Revenues (ballot restrictions): annual revenues of \$125,000 through 2024

Implementing the Financial Plan

CAPITAL PLANNING PROCESS CONSIDERATIONS

Managing Assumptions (utility revenues, valuations, interest rates, construction costs, etc.)

- Looking for “reasonable” and not “overly aggressive” or “overly cautious” with a proper discussion regarding the risk profile to the financing scenario
- Often easier to implement utility rate increases over a period of time (multi-year rate ordinance) and to raise rates earlier than necessary (build cash and fund depreciation of capital assets)
- Controlling inflationary cost increases in the Water / Wastewater Funds to 2%
- Valuation growth within the new TIF area to create approximately \$135,000 of revenues by FY2025

FINANCING “THE PROJECT”

Option 1: Increase Debt Service Levy \$0.50 / \$1000 of Taxable Valuation, annual water and sewer rate increase as necessary

Option 2: Increase Debt Service Levy \$1.00 / \$1000 of Taxable Valuation, annual water and sewer rate increase as necessary

Option 3: Increase Debt Service Levy \$1.50 / \$1000 of Taxable Valuation, annual water and sewer rate increase as necessary

Option 4: Increase Debt Service Levy \$0.80 / \$1000 of Taxable Valuation, annual water and sewer rate increase as necessary

- Debt to be issued for Water Tower Project (2019): **\$600,000 Water Revenue Bonds, \$600,000 of General Obligation Bonds (paid with property taxes)**
- Debt to be issued for Wastewater Treatment Plant Project (2022): **\$1,400,000 Sewer Revenue Bonds through the SRF program, \$500,000 General Obligation Bonds (SRF paid with property taxes), \$1,900,000 General Obligation Bonds (SRF paid with TIF Revenues)**
- GO Debt Structure: Water Project (20 years), Wastewater Project (20 years) resulting in \$92,000 annually through FY2024 (5 Years), \$74,000 annually (FY2025 – 2039), and \$30,000 annually FY3040-42
- GO Actions Steps / Impact: annual debt service levy payments of \$91,000 after FY2019 represent an average levy rate of about \$1.99 / \$1000 or roughly a **\$0.80 / \$1000 tax rate increase**
 - **Estimated Annual increase for a \$100,000 Residential: \$40.62 (\$3.38 monthly)**
 - **Estimated Annual increase for a \$100,000 Commercial: \$72.00**
- Sewer Debt Structure: 20 year debt resulting in \$86,000 annually FY2023-42
- Sewer Actions Steps / Impact: sewer utility rates increases to finance the Project of:
 - **3.0% in FY2020, 3.0% in FY2021, and 3.0% inflationary increases thereafter (assuming that operating costs increase at approximately 2.0% annually)**
- Water Debt Structure: 20 year debt resulting \$107,000 annually (when combined with existing debt) FY2020-34, reduced to \$63,000 FY2035-39
- Water Actions Steps / Impact: sewer utility rates increases to finance the Project of:
 - **4.0% in FY2020, 4.0% in FY2021, and 3.5% inflationary increases thereafter (assuming that operating costs increase at approximately 3.0% annually)**
- TIF Obligations structure: utilizing approximately \$350,000 of revenue FY2020-24, and \$135,000 annually from FY2025-39
- Debt Limit impact: will take the City to approximately 70.7% of the debt limit in the year the debt is issued (2022). However, if the City's valuations grow, and as existing debt is paid off, the City's debt limit margin would increase
- Additional Commentary: N/A

Option 4

General Obligation Debt

City of Earlham, Iowa

Valuation Growth: **0.000%**

Fiscal Year	5/31/12	7/16/14	Levy	TIF	Levy	Total Principal	Total Interest	Total P&I	Less Abatement	Net Levy	Estimated Valuation	Est. Tax Rate
			PLANI	PLANI	TOWER							
2018	120,000	122,000		0		242,000	10,550	252,550	-203,848	48,702	43,615,722	1.1166
2019	85,000	124,000		0		209,000	7,280	216,280	-161,132	55,148	45,967,965	1.1997
2020	85,000			0	13,000	98,000	66,060	164,060	-71,912	92,148	45,967,965	2.0046
2021	85,000			7,000	13,000	105,000	64,180	169,180	-77,552	91,628	45,967,965	1.9933
2022	50,000			30,000	14,000	94,000	61,820	155,820	-63,712	92,108	45,967,965	2.0037
2023			21,000	54,000	38,000	113,000	69,660	182,660	-91,260	91,400	45,967,965	1.9883
2024			21,000	78,000	40,000	139,000	66,640	205,640	-114,180	91,460	45,967,965	1.9896
2025			21,000	100,000	24,000	145,000	63,060	208,060	-134,620	73,440	45,967,965	1.5976
2026			22,000	102,000	25,000	149,000	59,680	208,680	-134,620	74,060	45,967,965	1.6111
2027			22,000	104,000	26,000	152,000	56,200	208,200	-134,580	73,620	45,967,965	1.6016
2028			23,000	106,000	27,000	156,000	52,640	208,640	-134,500	74,140	45,967,965	1.6129
2029			23,000	108,000	28,000	159,000	48,980	207,980	-134,380	73,600	45,967,965	1.6011
2030			24,000	111,000	29,000	164,000	45,240	209,240	-135,220	74,020	45,967,965	1.6103
2031			24,000	113,000	30,000	167,000	41,380	208,380	-135,000	73,380	45,967,965	1.5963
2032			25,000	115,000	32,000	172,000	37,440	209,440	-134,740	74,700	45,967,965	1.6250
2033			25,000	117,000	33,000	175,000	33,360	208,360	-134,440	73,920	45,967,965	1.6081
2034			25,000	120,000	34,000	179,000	29,200	208,200	-135,100	73,100	45,967,965	1.5902
2035			26,000	122,000	36,000	184,000	24,940	208,940	-134,700	74,240	45,967,965	1.6150
2036			27,000	124,000	37,000	188,000	20,540	208,540	-134,260	74,280	45,967,965	1.6159
2037			27,000	127,000	39,000	193,000	16,040	209,040	-134,780	74,260	45,967,965	1.6155
2038			28,000	130,000	40,000	198,000	11,400	209,400	-135,240	74,160	45,967,965	1.6133
2039			28,000	132,000	42,000	202,000	6,640	208,640	-134,640	74,000	45,967,965	1.6098
2040			29,000	0	0	29,000	1,760	30,760	0	30,760	45,967,965	0.6692
2041			29,000	0	0	29,000	1,180	30,180	0	30,180	45,967,965	0.6565
2042			30,000	0	0	30,000	600	30,600	0	30,600	45,967,965	0.6657
2043				0	0	0	0	0	0	0	45,967,965	0.0000

Totals: 425,000 246,000 500,000 1,900,000 600,000 3,671,000 896,470 4,567,470 -2,804,416 1,763,054

Debt Limit Calculation

City of Earlham, Iowa

Estimated Growth (% of average): **50%** 1.536%

Fiscal Year	GO New	New GO	GO Existing	Existing GO	Cumulative Outstanding	Estimated Valuation	Debt Limit	Remaining Debt Limit	Percentage Used	Remaining Percentage
7/1/2017			671,000		671,000	72,058,229	3,602,911	2,931,911	18.624%	81.376%
2018		0		-242,000	429,000	77,800,270	3,890,014	3,461,014	11.028%	88.972%
2019	600,000	0		-209,000	820,000	78,995,179	3,949,759	3,129,759	20.761%	79.239%
2020	1,900,000	-13,000		-85,000	2,622,000	80,208,439	4,010,422	1,388,422	65.380%	34.620%
2021		-20,000		-85,000	2,517,000	81,440,334	4,072,017	1,555,017	61.812%	38.188%
2022	500,000	-44,000		-50,000	2,923,000	82,691,150	4,134,557	1,211,557	70.697%	29.303%
2023		-113,000		0	2,810,000	83,961,176	4,198,059	1,388,059	66.936%	33.064%
2024		-139,000		0	2,671,000	85,250,708	4,262,535	1,591,535	62.662%	37.338%
2025		-145,000		0	2,526,000	86,560,045	4,328,002	1,802,002	58.364%	41.636%
2026		-149,000		0	2,377,000	87,889,492	4,394,475	2,017,475	54.091%	45.909%
2027		-152,000		0	2,225,000	89,239,358	4,461,968	2,236,968	49.866%	50.134%
2028		-156,000		0	2,069,000	90,609,956	4,530,498	2,461,498	45.668%	54.332%
2029		-159,000		0	1,910,000	92,001,604	4,600,080	2,690,080	41.521%	58.479%
2030		-164,000		0	1,746,000	93,414,626	4,670,731	2,924,731	37.382%	62.618%
2031		-167,000		0	1,579,000	94,849,351	4,742,468	3,163,468	33.295%	66.705%
2032		-172,000		0	1,407,000	96,306,110	4,815,306	3,408,306	29.219%	70.781%
2033		-175,000		0	1,232,000	97,785,244	4,889,262	3,657,262	25.198%	74.802%
2034		-179,000		0	1,053,000	99,287,095	4,964,355	3,911,355	21.211%	78.789%
2035		-184,000		0	869,000	100,812,013	5,040,601	4,171,601	17.240%	82.760%
2036		-188,000		0	681,000	102,360,351	5,118,018	4,437,018	13.306%	86.694%
2037		-193,000		0	488,000	103,932,470	5,196,624	4,708,624	9.391%	90.609%
2038		-198,000		0	290,000	105,528,735	5,276,437	4,986,437	5.496%	94.504%
2039		-202,000		0	88,000	107,149,516	5,357,476	5,269,476	1.643%	98.357%
2040		-29,000		0	59,000	108,795,190	5,439,759	5,380,759	1.085%	98.915%
2041		-29,000		0	30,000	110,466,139	5,523,307	5,493,307	0.543%	99.457%
2042		-30,000		0	0	112,162,752	5,608,138	5,608,138	0.000%	100.000%
Totals:	3,000,000	-3,000,000	671,000	-671,000						

Option 4

Sewer Revenue Obligations

City of Earlham, Iowa

Fiscal Year	2.000%	Total	Total	Total	Illustration Purposes / Not Recommendation or Advice				
	PLANT	Principal	Interest	P&I	Change In Rate	Inflation Factor	Debt Service Coverage	Net Free Cash Flow	Cum. Cash Unreserved
2018		0	0	0	Actual	Actual		-14,090	81,726
2019		0	0	0	3.00%	2.00%		47,000	128,726
2020		0	0	0	3.00%	2.00%		52,110	180,837
2021		0	0	0	3.00%	2.00%		57,362	238,199
2022		0	0	0	3.00%	2.00%		98,099	336,297
2023	53,000	53,000	28,000	81,000	3.00%	2.00%	1.15	17,139	353,436
2024	59,000	59,000	26,940	85,940	3.00%	2.00%	1.14	16,543	369,979
2025	60,000	60,000	25,760	85,760	3.00%	2.00%	1.19	21,228	391,206
2026	61,000	61,000	24,560	85,560	3.00%	2.00%	1.25	26,099	417,306
2027	63,000	63,000	23,340	86,340	3.00%	2.00%	1.29	30,163	447,469
2028	64,000	64,000	22,080	86,080	3.00%	2.00%	1.36	35,446	482,915
2029	65,000	65,000	20,800	85,800	3.00%	2.00%	1.42	40,932	523,847
2030	66,000	66,000	19,500	85,500	3.00%	2.00%	1.49	46,628	570,475
2031	68,000	68,000	18,180	86,180	3.00%	2.00%	1.54	51,542	622,017
2032	69,000	69,000	16,820	85,820	3.00%	2.00%	1.62	57,698	679,715
2033	71,000	71,000	15,440	86,440	3.00%	2.00%	1.67	63,085	742,800
2034	72,000	72,000	14,020	86,020	3.00%	2.00%	1.75	69,729	812,529
2035	73,000	73,000	12,580	85,580	3.00%	2.00%	1.84	76,617	889,145
2036	75,000	75,000	11,120	86,120	3.00%	2.00%	1.90	82,757	971,902
2037	76,000	76,000	9,620	85,620	3.00%	2.00%	2.00	90,176	1,062,079
2038	78,000	78,000	8,100	86,100	3.00%	2.00%	2.07	96,864	1,158,942
2039	79,000	79,000	6,540	85,540	3.00%	2.00%	2.17	104,846	1,263,789
2040	81,000	81,000	4,960	85,960	3.00%	2.00%	2.25	112,114	1,375,902
2041	83,000	83,000	3,340	86,340	3.00%	2.00%	2.33	119,694	1,495,596
2042	84,000	84,000	1,680	85,680	3.00%	2.00%	2.44	128,596	1,624,192
2043		0	0	0	3.00%	2.00%		222,810	1,847,002

Totals: 1,400,000 1,400,000 313,380 1,713,380

Water Revenue Obligations

City of Earlham, Iowa

Fiscal Year	5/31/12	4.000%	Total	Total	Total	Illustration Purposes / Not Recommendation or Advice				
		TOWER	Principal	Interest	P&I	Change In Rate	Inflation Factor	Debt Service Coverage	Net Free Cash Flow	Cum. Cash Unreserved
2018	40,000		40,000	24,285	64,285	Actual	Actual	4.67	-18,528	164,873
2019	40,000		40,000	23,645	63,645	3.00%	3.00%	1.84	53,246	218,119
2020	40,000	3,000	43,000	47,005	90,005	4.00%	3.00%	1.37	33,694	251,813
2021	45,000	13,000	58,000	46,025	104,025	4.00%	3.00%	1.26	26,819	278,632
2022	45,000	14,000	59,000	44,538	103,538	3.50%	3.00%	1.32	33,017	311,649
2023	45,000	14,000	59,000	43,010	102,010	3.50%	3.00%	1.40	40,489	352,138
2024	45,000	20,000	65,000	41,258	106,258	3.50%	3.00%	1.40	42,430	394,568
2025	50,000	21,000	71,000	39,265	110,265	3.50%	3.00%	1.41	44,862	439,431
2026	50,000	22,000	72,000	37,100	109,100	3.50%	3.00%	1.48	52,730	492,161
2027	50,000	23,000	73,000	34,720	107,720	3.50%	3.00%	1.57	61,086	553,247
2028	50,000	24,000	74,000	32,300	106,300	3.50%	3.00%	1.66	69,765	623,011
2029	55,000	25,000	80,000	29,840	109,840	3.50%	3.00%	1.67	73,779	696,790
2030	55,000	26,000	81,000	27,053	108,053	3.50%	3.00%	1.77	83,426	780,216
2031	60,000	27,000	87,000	24,225	111,225	3.50%	3.00%	1.80	88,431	868,647
2032	60,000	28,000	88,000	21,195	109,195	3.50%	3.00%	1.91	98,970	967,616
2033	60,000	29,000	89,000	17,975	106,975	3.50%	3.00%	2.03	110,041	1,077,658
2034	65,000	30,000	95,000	14,715	109,715	3.50%	3.00%	2.06	116,510	1,194,168
2035		52,000	52,000	11,240	63,240	3.50%	3.00%	3.73	172,564	1,366,732
2036		54,000	54,000	9,160	63,160	3.50%	3.00%	3.89	182,609	1,549,340
2037		56,000	56,000	7,000	63,000	3.50%	3.00%	4.07	193,133	1,742,473
2038		58,000	58,000	4,760	62,760	3.50%	3.00%	4.25	204,153	1,946,626
2039		61,000	61,000	2,440	63,440	3.50%	3.00%	4.38	214,685	2,161,311
2040		0	0	0	0	3.50%	3.00%		289,785	2,451,097

Totals: 855,000 600,000 1,455,000 582,753 2,037,753

Financial Disclosures

As part of our services, Piper Jaffray may provide advice concerning the structure, timing, terms, and other similar matters concerning an issue of municipal securities that Piper Jaffray is underwriting or placing. However, Piper Jaffray intends to serve as an underwriter or placement agent respecting the Bonds and not as a financial advisor to you; and the primary role of Piper Jaffray is to purchase the Bonds for resale to investors or arrange for the placement of the Bonds in an arm's-length commercial transaction between you and Piper Jaffray. Piper Jaffray has financial and other interests that differ from your interests.

As an underwriter or placement agent, Piper may provide advice concerning the structure, timing, terms, and other similar matters concerning the Bonds. Attached to this letter are regulatory disclosures required by the Securities and Exchange Commission and the Municipal Securities Rulemaking Board to be made by us at this time because of this engagement. We may be required to send you additional disclosures regarding the material financial characteristics and risks of such transaction or describing those conflicts. At that time, we also will seek your acknowledgement of receipt of any such additional disclosures. It is our understanding that you have the authority to bind the issuer by contract with us, and that you are not a party to any conflict of interest relating to the Bonds. If our understanding is incorrect, please notify the undersigned immediately.

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