THE FINANCING FOR CAPITAL PROJECTS

1. Review of Existing Documents

The identification of potential capital projects is usually not that difficult. The more challenging part of the CIP process is deciding how to pay for the capital projects. In order to determine the City's financial ability to pay for capital projects the following documents were reviewed:

1. City budget summary FY 2011-12
2. Independent auditor's report – June 30, 2010
3. Deer Run TIF development agreement - 2006
4. Jasper and Polk County auditor's report on taxable valuation and 100% assessed valuation – 2009, 2010, 2011, & 2012
5. City of Mitchellville water and sewer rate structures
6. City's outstanding General Obligation bonds, notes, and loans
7. State Revolving Fund (SRF) water and sewer loans
8. City cash balances – all funds – June 30, 2011
9. City of Mitchellville General Obligation capital loan notes – 2008 – Official Statement – dated May 12, 2008
10. City street financial report for the Iowa DOT – FY 2010-11
11. FY 2009-10 and FY 2010-11 actual revenues and expenditures

2. Potential Sources of Funding

A. General Obligation Loans

Many of the City's previous capital projects have been financed with general obligation (G.O.) bonds or loans. Most of the projects indentified in this CIP could be financed with G.O. bonds, but there are some limitations on the City's ability to finance future projects with G.O. bonds, such as the state constitutional debt limit and the amount of the City's property tax debt service levy. Detailed reviews of both of these limitations are covered later in this CIP.

B. Water and Sewer Revenue Loans

The City can issue water and sewer revenue bonds or loans in order to finance water and sewer capital projects. The City has issued SRF loans for both a water plant project in 2005 and a wastewater treatment facility improvement project in 2004. The City has pledged water and sewer user fee revenues to retire both of these SRF loans, which have 20 years debt payment schedules. In order to issue additional water and sewer loans to finance water and sewer projects, the City would have to increase water and /or sewer user fee rates.

C. Grants

The City has identified some capital projects that may qualify for various grants. The trail projects may qualify for state and federal grant programs, provided that the Iowa Legislature and U.S. Congress continue to fund these grant programs. The water, storm sewer, and sanitary sewer projects may qualify for the Community Development Block Grant (CDBG) program, which is administered by Iowa Department of Economic Development (IDED).

D. Donations and Bequests

It is very common for cities to receive donations or bequests for library related projects, park improvements, police equipment, and fire department equipment. The sources for these

donations can be service clubs, individuals, gaming establishments, and corporations with local connections.

E. *Cash Reserves*

The City has the option of financing some of the less expensive capital projects with cash resources. The City had $1,075,866 in cash reserve as of June 30, 2011, but much of this money was in restricted accounts or is needed for cash flow purposes. The funds that have the potential to finance capital projects and equipment purchases include:

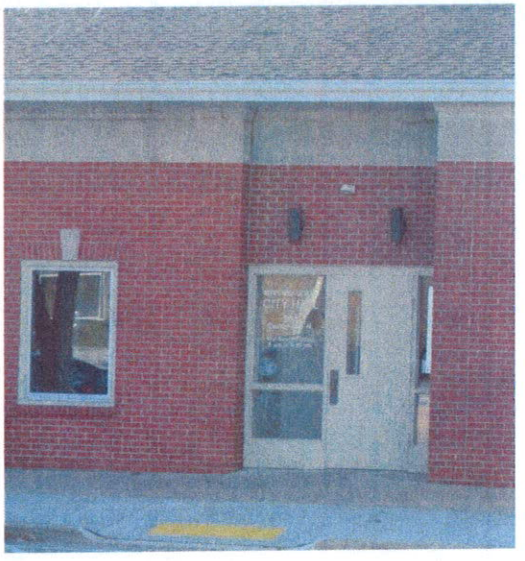
- Fire truck replacement fund.....$27,101
- Blake trust fund.....$62,892
- Library memorial T&A.....$15,039
- Sewer fund.....$552,798

While there are cash reserves in the General Fund, Road Use Tax (RUT) fund, and the Water fund, these cash balances are not sufficient to finance capital projects. The current balances are needed to be retained for cash flow purposes. A more detailed review of the City's cash reserves is included later in this CIP.

F. *Tax Increment Financing (TIF)*

Many cities have used tax increment financing (TIF) to finance various infrastructure projects, such as storm sewers, streets, sanitary sewers, and water mains. The City of Mitchellville has an Urban Renewal area or TIF district, but future TIF revenues have been pledged to the Developer of the Deer Run Development in what is called a TIF rebate agreement.

The City could establish additional urban renewal areas with the intent of using future TIF revenues to finance capital projects, such as streets, storm sewer, water mains, and sanitary sewers. However, there has to be an increase in taxable valuations from the construction of new buildings in order to generate TIF funds in the future. If there is no new construction and subsequent increase in taxable valuations, the City runs the risk of having to increase property taxes to retire the debt for such capital improvements. Addendum III is an overview of tax increment financing and the process required to secure TIF revenues.



1. Typical Funding Sources – Not Currently Used by the City of Mitchellville

A. Local Option Sales Tax

Many cities in Iowa use local option sales tax money to fund capital projects and equipment purchases, but the City of Mitchellville does not have this source of revenue. The implementation of a 1% local option sales tax requires 50% voter approval. If Mitchellville had a local option tax, it is estimated that it would generate about $63,000 in revenue for the City that could be used for any lawful public purposes, as specified in the Council Resolution that must adopted prior to the public referendum. It has been assumed that for the purposes of this CIP, that the City will not have access to local option sales tax revenue for future capital projects.

B. Capital Improvement Fund Tax Levy

Section 384.7 of the Code of Iowa permits cities to collect a property tax capital improvements levy of 67.5 cents per $1,000 of taxable valuation, if it is approved by the voters. Many cities use this additional property tax revenue to finance streets, sidewalks, and storm sewer improvements. If the City of Mitchellville had this CIP levy, it would generate $30,500 in FY 2012-13 for capital projects.

C. Storm Water Utility Revenues

Section 384.84 of the Code of Iowa allows cities to establish storm water utility systems with user fees to recover the costs of the construction and operation of stormwater pipes, catch basins, detention basins, and related improvements. Many cities have implemented storm water utilities by a majority vote of the City Council. A public referendum is not required. Storm water user fees are typically established as either a flat fee for all properties or as a fee that is based upon the amount of storm water runoff from the property that enters the city's storm sewer system or a combination of the two options. Addendum IV is a list of some of the cities in Iowa that have established storm water utility user fees.

D. Franchise Fees

Sections 364.3 and 384.3A authorize cities to impose up to a five percent (5%) fee on electric and natural gas gross revenues. If the cities follow the process, as outlined in the Code of Iowa, and earmark the additional revenues for a lawful public purpose, cities can then use their franchise fee revenues for basic infrastructure needs. Many cities with franchise fees reason that since the utility providers are basically paying the fees for the use of the public right-of-way (ROW), it is appropriate to earmark the funds for repairs to the infrastructure located in the ROW, such as streets, sidewalks, and storm sewers. The Code of Iowa does not require voter approval to implement franchise fees, which typically are "pass through" fees on the electric, gas, and cable bills that are paid by local customers of the utility. After the implementation process has been followed, the City Council can adopt a resolution that sets forth a franchise fee of not more than 5% on any of these utilities. In order to calculate the potential revenues to the City from franchise fees, the City can contact the three utility providers and request information regarding their gross revenues in Mitchellville. It is estimated that a 5% franchise fee on electric bills would generate $40,865 and a 5% franchise fee on natural gas bills would bring in $32,905 to the City.

E. Special Assessments

It is possible for the City to construct or rebuild streets, sidewalks, storm sewers, water mains, and sanitary sewers and then assess a portion of the cost back to the properties that benefit

from the improvements. Section 384.37 to 384.79 of the Code of Iowa sets forth the detailed special assessment process for public improvements. The special assessment process requires a super majority vote of ¾ of all Council Members or basically four votes of the Mitchellville City Council. If a valid petition against the special assessment is filed, then an unanimous vote of the City Council is required.

Exhibit A

Proposed Capital Projects and Equipment Purchases - Updated February 10, 2012

Police Department

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
1. New Police Car	Replace the 2005 Ford with 143,000 miles	$25,000	B	Property taxes - G.O. Loan	A/B
2. In-Car Computers	Installation of a computer in both vehicles @ $5,000 each	$10,000	B	Property taxes -G.O. Loan	B
3. Tazors - Police Equipment	Provide all police officers with tazors - 4 units @ $875 each	$3,500	A	Property taxes - general levy	B/C
4. Furniture - Police Station	Purchase of desks and chairs for offices	$5,000	C	Property taxes - general levy	D
5. In-Car Cameras	Installation of video cameras in both vehicles @ $4,000 each	$8,000	B	Grant-Casino	B
6. Communication Radios	Purchase of 4 handheld radios for 4 officers @ $3,500 each	$18,000	A	Property taxes - G.O. Loan	A/B

Fire Department

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
1. Public Safety Building	New facility for police and fire departments and replace fire station built in 1900	$500,000	B	Grants/Donations	B/C
2. Pumper Truck	Replace the 1984 pumper truck that was damaged and overheats	$20,000	A	Grant/Trade-In Value	A
3. Duty Vehicle	For MFD paramedics on call	$5,000	A	Donations/Polk County	B

Public Library

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
1. Library Roof	Replace the Library roof which was done in 1981	$30,000	A	Donations/Grants	A
2. Library - Interior Repairs	Wall and ceiling repairs	$1,000	A	Donations/Grants	A/B
3. Library - Lighting	Completion of lighting replacement	$5,000	A	Donations/Grants	B/C
4. Library - Cooling System	Installation of cooling system in foyer	$8,600	B	Donations/Grants	C
5. Library - Siding Replacement	Exterior painting and siding replacement	$12,000	C	Donations/Grants	C
6. Library Carpet	Replacement of carpet throughout library	$7,000	C	Donations/Grants	C/D
7. Library Copier	Replacement of one copier that was purchased in 2009	$5,000	C	Budget	C

Parks & Recreation

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
1. Park Improvements	City Park	$142,150	A	Grants/Donations	B
2. Park Bathroom	Update of bathroom in City Park	$7,000	A	REAP Grant or G.O. Loan	A/B
3. Tennis Courts	Asphalt resurfacing of tennis courts in City Park	$25,000	A	Property taxes, Donations	B/C
4. Trail Plan	Plan to designate routes, estimate costs, and identify sources of funding	$4,700	A	Property Taxes	C
5. Jasper/120th St Trail Phase I	Connect the City to the Chichaqua Valley Trail to Railroad R.O.W.	?	A	G.O. Debt, State & Federal Grants	C
6. Third Street Trail/Sidewalk Connection Phase II	Jasper to Cotton Avenue	?	A	G.O. Debt, State & Federal Grants	C
7. Cotton & Mill & 110th St to Connection Phase III	Construction of Trail on Cotton Ave. (3rd to Mill) on Mill (Cotton to NE 110th St) and NE 110th to Railroad ROW	?	A	G.O. Debt, State & Federal Grants	C
8. Railroad R.O.W. Trail Phase IV	Construction of Trail on Railroad R.O.W. from NE 110th to NE 120th St.	?	C	G.O. Debt, State & Federal Grants	C

Public Works Department -Streets

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
1. Street Inspection and Evaluation	Inspection and review of all street surfaces and master plan for repairs and reconstruction	$10,000		Property taxes/RUT money	A
2. Street Reconstruction	Locations?			G.O. Debt	B/C
3. Seal Coating Annual Program	Chip seal of various city streets	$55,000/year		G.O. Debt/RUT	B
4. Street Repairs	Asphalt and concrete patching work	$40,000/year		RUT Fund	B
5. Street Improvement Plan	Plan to identify street repairs, street reconstruction, and cost estimates		A	RUT Fund	B

Public Works Department - Storm Sewers

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
1. NW Area 4 storm drainage improvements- Cotton, Fourth, & Walnut	Installation of 3,290 feet of storm sewer ranging in size from 12" to 36" in NW area of the City	$496,329	A	Storm Sewer Fees & G.O. Debt	A/B
2. NW Area 7 storm drainage improvements- Market & Elm Avenue	Installation of 1,700 feet of storm sewer ranging in size from 12" to 30" in the NW area	$286,313	A	Storm Sewer Fees & G.O. Debt	B
3. NE Area 6 & 7 storm drainage improvements- Third & Arch Avenue	Installation of 800 feet of storm sewer ranging in size from 12" to 24" in the NE area	$127,763	A	Storm Sewer Fees & G.O. Debt	B
4. NE Area 4 & 5, and NW Area 2, 3 & 5 storm drainage improvements- Numerous locations	Installation of 1,900 feet of storm sewer ranging in size from 15" to 36" with numerous manhole intakes and flow transition mats	$194,171	A	Storm Sewer Fees & G.O. Debt	B/C

Public Works Department - Equipment

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
1. Trailer		?	On Hold	RUT money	N.A.
2. Snow Blower		?	On Hold	RUT money	N.A.
3. Skid Steer		?	On Hold	RUT money	N.A.

Wastewater & Sanitary Sewers

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
1. Wastewater Plant Improvements	Improvements per EPA & DNR Mandates	?	A	Sewer Fund	A
2. WWTP Facilities Study	Plan per DNR guidelines to identify future needs of WWTP facility and sanitary sewer system.	$30,000	A	SRF loan/Sewer Fund	A/B
3. Sanitary Sewer Replacement west of Center (N24 to N25)	High St to Jet St - Replace 1200' of 8" Sewer Line	$160,420		SRF loan/Sewer Fund	C/D
4. Sanitary Sewer Replacement Between 4th & 5th (S57 to S64)	Market St to the East - Replace 360' of 8" Sewer Line	$54,760		SRF loan/Sewer Fund	C
5. Mud Creek Sanitary Sewer	New Sewer Line	?		SRF loan/Sewer Fund	C/D

Water Utility

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
1. Water Plant	Water softner	$800,000	D	Water Fund/SRF Loan	
2. 5th St Water Main - Project A	Elm to Center- Replace 1,278' of 4" main with 8" main	$102,240		Water Fund/SRF Loan	
3. 5th St Water Main - Project B	Cotton to Walnut - Replace 360' of main with 8" main	$28,800		Water Fund/SRF Loan	
4. 4th St Water Main - Project A	Elm to Center- Replace 1,345' of 4" main with 8" main	$107,600		Water Fund/SRF Loan	
5. 4th St Water Main - Project B	Cotton to Walnut - Replace 670' of 4" main with 8" main	$53,600		Water Fund/SRF Loan	
6. 3rd St Water Main - Project A	Elm to Center - Replace 1360' of 4" main with 8" main	$108,800		Water Fund/SRF Loan	
7. 2nd St Water Main - Project A	Walnut to Center - Replace 575' & 1,280' of 4" main with 8" main	$148,400		Water Fund/SRF Loan	
8. 1st St Water Main	Elm to Center - Replace 1281' of 2" main with 8" main	$102,480		Water Fund/SRF Loan	
9. Walnut St Water Main	2nd to 3rd - Replace 420' of 4" main with 8" main	$33,000		Water Fund/SRF Loan	
10. Elm Ave Water Main - Project A	Mill to 5th - Replace 528' & 795' & 900' of 4" main with 8" main	$177,840		Water Fund/SRF Loan	
11. Center Ave Water Main - Project A	4th to 6th- Replace 851' of 4" main with 8" main	$68,080		Water Fund/SRF Loan	
12. 4th St Water Main - Project C	Center to Vine - Replace 1,040' & 910' of 4" main with 8" main	$156,000		Water Fund/SRF Loan	
13. 3rd St Water Main - Project B	Park to Oak - Replace 1,225' of 4" main with 8" main	$98,000		Water Fund/SRF Loan	
14. 2nd St Water Main - Project B	Center to Oak - Replace 725' & 1,225' of 4" main with 8" main	$156,000		Water Fund/SRF Loan	

Water Utility

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
15. Park Ave Water Main	3rd to Deadend - Replace 817' of 4" main with 8" main	$65,360		Water Fund/SRF Loan	
16. Oak Ave Water Main	4th to 2nd - Replace 818' of 4" main with 8" main	$65,440		Water Fund/SRF Loan	

17. High St Water Main	Market to Center - Replace 605' of 4" main with 8" main	$48,400		Water Fund/SRF Loan	
18. Carter St Water Main	Elm to Market - Replace 655' of 4" main with 8" main	$52,400		Water Fund/SRF Loan	
19. Elm St Water Main- Project B	Mill to Jet - Replace 632' & 688' & 635' of 4" main with 8" main	$156,400		Water Fund/SRF Loan	
20. Market St Water Main - Project A	Mill to High - Replace 610' of 4" main wth 8" main	$48,000		Water Fund/SRF Loan	
21. Market St Water Main - Project B	Carter to Jet - Replace 656' of 4" main with 8" main	$52,480		Water Fund/SRF Loan	
22. Center Ave Water Main - Project B	High to Jet - Replace 640' & 670' of 4" main with 8" main	$104,800		Water Fund/SRF Loan	

Economic Development Projects

Project Name	Description	Cost Estimate	Department Heads	Funding Sources	Council Rankings
1. Property Acquisition	Herman property purchase	$1,500,000	B		B
2. Industrial Park	Water main & sewer line extensions- 300'	?	B	Property taxes - G.O. Debt/ Water & Sewer Revenue Debt/RISE Grant/TIF	B/C
3. Cotton Avenue Widening	Widening to three lanes - center turn lane - from 700 ft north of 6th St. to Mill St.	$1,448,500	A	MPO Funds/ Property taxes - G.O. Debt or TIF/RISE Grant	B/C
4. I-80 & Iowa Highway 117 Interchange	Interchange improvements to accommodate semi trucks		A	RISE Grant/MPO Funds	B/C
5. Center Avenue & 7th Street	Extend Center Avenue and create 7th Street		C	RISE Grant/G.O. Debt	C/D
6. Website	Enhance City website	$5,000	A	Casino Grant	A/B
7. Annexation Study	Develop plan for future annexation to the City	$12,000	B	Property taxes - General Levy/Water & Sewer Budgets	B/C

General Obligation Debt Capacity

The Iowa Constitution states that no city may become indebted in any manner, or for any purpose, in an amount exceeding five percent of the value of taxable property in the city. The Iowa Supreme Court has ruled that this provision applies only to debt payable from property taxes. The Iowa General assembly has enacted a statute which interprets this Constitutional provision to allow the calculation of a city's debt capacity against the 100% assessed or actual valuation of property, rather than the taxable value which incorporates the "roll-back." Further, this limit applies only to outstanding principal amounts of debt. Accordingly a city's sum total of outstanding balance of loans, bonds, notes or other instruments payable from property taxes cannot exceed the principal amount of five percent of the actual valuation of the city.

1. *Current G.O. Debt Capacity*

Since the City's 100% assessed valuation was $76,170,365 on July 1, 2011, the City's current debt capacity limit is $3,808,518. The City has five outstanding general obligation debts and one TIF rebate agreement that have to be subtracted from this amount to determine the amount of debt capacity available for future projects. The City currently has $2,313,000 in outstanding general obligation debt, which means that over 60% of the City's debt capacity is already committed. The balance available is currently $1,495,518 or just under 40%.

2. *Future Debt Capacity Projections*

Exhibit B has been prepared to calculate the City's debt capacity limit from 2011 to 2026, when all of the outstanding debt will have been retired. It is important to note that the available debt capacity will continue to increase as two things occur:

1. The outstanding debt is retired over time on an annual basis.

2. The City's 100% assessed valuation continues to increase, which will then increase 5% debt capacity limit. Exhibit B assumes an annual increase of about 1% per year of the City's assessed valuation after 2014, which is a conservative estimate based upon recent trends.

3. Water SRF- G.O. Loan

The City issued a State Revolving Fund (SRF) loan in 2006 for $1,040,000 for a water project. Since the SRF loan was issued as general obligation debt, the current outstanding balance of $723,000 must be counted against the City's debt capacity. Although the City has been using water utility user fees to retire this SRF loan, the City still has to count the outstanding balance of this loan on the G.O. debt capacity limit. The City retains the option of using a property tax debt service levy to retire all or a portion of the annual debt payment. The outstanding balance of $723,000 basically consumes about 19% of the City's G.O. debt capacity.

4. Debt Capacity – 2012 to 2017

Since the City is preparing a five year capital improvement plan, the primary focus of this report is to determine the amount of debt capacity that is available to finance future capital projects. It is estimated that the City will have the following G.O. debt capacity available on the following dates:

Date	Amount	Percent of Capacity
July 1,2012	$1,811,500	46.0%
July 1,2013	$1,991,000	50.6%

July 1,2014	$2,190,000	55.7%
July 1,2015	$2,422,000	61.2%
July 1,2016	$2,680,000	67.0%
July 1,2017	$2,925,000	72.4%

These numbers are strictly estimates based upon a modest growth in the assessed valuation, the continued retirement of the City's outstanding debt, and the continued decline in the City's TIF rebate balance owed to the Deer Run Developer. If the City were to issue additional general obligation debt or pay off the balance of any outstanding prior to the actual due dates, then these projections would decrease or increase according to the amount of the payments.

EXHIBIT B

CITY OF MITCHELVILLE: GENERAL OBLIGATION DEBT CAPACITY PROJECTIONS

July 1st-Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Assessed Valuation	$76,170,365	$78,687,849	$78,700,000	$78,700,00	$78,700,000	$80,000,000	$80,800,000	$81,600,000
G.O. Debt	$3,808,518	$3,934,392	$3,935,000	$3,920,0000	$3,935,000	$4,040,000	$4,040,000	$4,080,000
Outstanding Debt								
1. 1997 Storm Sewer G.O.	$30,000	-0-						
2. 2006 Water G.O.	$723,000	$685,000	$646,000	$605,000	$563,000	$520,000	$475,000	$429,000
3. 2007 Library G.O.	$150,000	$120,000	$90,000	$60,000	$30,000	-0-		
4. 2008 City Hall Center Ave	$555,000	$505,000	$445,000	$380,000	$310,000	$240,000	$165,000	$85,000
5. 2009 Ambulance G.O.	$155,000	$140,000	$120,000	$100,000	$80,000	$60,000	$40,000	$20,000
6. TIF Rebate - 2006	$700,000	$672,800	$640,000	$600,000	$555,000	$500,000	$435,000	$355,000
7. Future Debt								
8. Future Debt								
Total G.O. Commitment	$2,313,000	$2,122,800	$1,941,000	$1,745,000	$1,538,000	$1,320,000	$1,115,000	$889,000
Percentage Used	60.7%	54%	49.4%	44.3%	38.8%	33.0%	27.6%	21.8%
Balance Available	$1,495,518	$1,811,592	$1,991,000	$2,190,000	$2,422,000	$2,680,000	$2,925,000	$3,191,000
Percentage Available	39.3%	46%	50.6%	55.7%	61.2%	67.0%	72.4%	78.2%

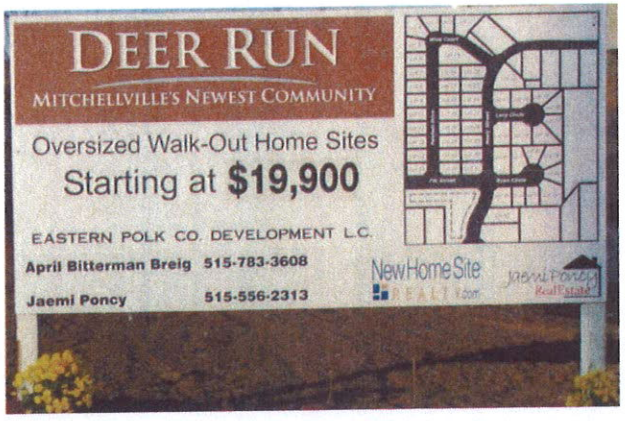
Revised: February 28, 2012 by Patrick Callahan

July 1st-Year	2019	2020	2021	2022	2023	2024	2025	2026
Assessed Valuation	$82,400,000	$83,200,000	$84,000,000	$84,900,000	$85,700,000	$86,600,000	$87,500,000	$88,300,000
G.O. Debt	$4,120,000	$4,160,000	$4,2000,000	$4,245,000	$4,285,000	$4,330,000	$4,375,000	$4,415,000
Outstanding Debt								
1. 1997 Storm Sewer G.O.	-							
2. 2006 Water G.O.	$381,000	$332,000	$281,000	$228,000	$174,000	$118,000	$60,000	-0-
3. 2007 Library G.O.	-0-							
4. 2008 City Hall Center Ave	-0-							
5. 2009 Ambulance G.O.	-0-							
6. TIF Rebate - 2006	$260,000	$140,000	-0-					
7. Future Debt								
8. Future Debt								
Total G.O. Commitment	$641,000	$472,000	$281,000	$228,000	$174,000	$118,000	$60,000	-0-
Percentage Used	15.6%	11.3%	6.7%	5.4%	4.1%	2.7%	1.4%	0%
Balance Available	$3,479,000	$3,688,000	$3,919,000	$4,017,000	$4,111,000	$4,212,000	$4,315,000	$4,415,000
Percentage Available	84.4%	88.7%	93.3%	94.6%	95.9%	97.3%	98.6%	100.0%

Revised: February 28, 2012 by Patrick Callahan

1. TIF Rebate Agreement – Deer Run Development

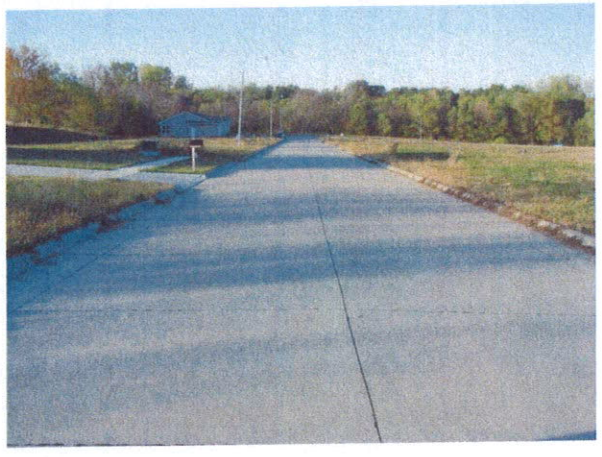
The City entered into a development agreement with Eastern Polk Development, LLC on May 1, 2006 for the purpose of providing an incentive for a residential housing development projec t. The City agreed to construct the 7th Street Sanitary Sewer Improvements to serve the proposed development. The City also agreed to provide a tax increment financing (TIF) property tax rebate back to the company. The agreement states that the amount of the TIF rebate shall not exceed $700,000 and shall be available for a term of ten fiscal years.



Since the first payments of the TIF rebate has been scheduled for fiscal year July 1, 2011 to June 30, 2012, the City is obligated to provide the TIF rebates until June 30, 2022. It is estimated that $27,202 in TIF funds will be collected in FY 2011-12 with 27.3% or $7,426 being set aside for LMI projects and the balance of 72.7% or $19,776 being paid to the developer.

Since the development agreement did not contain an "annual appropriation clause", the full amount to the total potential rebate ($700,000), minus any payments made to date, must be counted against the City's constitutional debt limit. Since the City's constitutional debt limit was $3,808,518 as of July 1, 2011, the "potential value" of the TIF rebate basically uses up 18.4% of the City total debt capacity. It has been assumed that for the purposes of this CIP report that as houses are built in the Deer Run Development, the amount of property tax and TIF revenues will continue to increase each year. As the annual payments are made, the $700,000 will continue to decline over the ten year period.

While it is difficult to predict how many houses will be built in the Deer Run Development over the next nine years, some assumptions were made on Exhibit B which predicts the City's constitutional debt limit over this period of time. The ten annual payments were projected to range from $27,200 in FY 2011-12 to $140,000 in FY 2020-21 with increasing amounts each year. If the annual payments are greater than estimated, then the impact on the City's debt capacity limit will be less than projected and vice versa.



There are 50 residential lots in the Deer Run Development. If all 50 lots had houses constructed on them with a value of $150,000 or more, the potential amount of TIF revenue would be $140,000 to $150,000 per year. Therefore, it would appear that there is the potential that the full $700,000 could be paid to developers within the ten year period, provided most of the lots have a house built on them by 2016 or 2017.

Debt Service Levy Projections

Many of the City's capital projects will need to be financed with general obligation G.O. loans, which will have to be repaid with a property tax debt service levy. Therefore, it is important for the City to review its current debt load and its ability to assume additional general obligation debt.

1. Current G.O. Debt - Outstanding

The City currently has the following three general obligation debts that are being retired with a property tax debt service levy:

1. Storm Sewer – G.O. loan – 1997
2. Library Project – G.O. loan – 2007
3. City Hall/Center Avenue - G.O. bonds – 2008

The storm sewer G.O. loan was issued in 1997 and will be paid off with the final payment on June 1, 2012. This debt will no longer have a bearing on the City's future debt load.

The Library G.O. loan has a balance of $150,000 and has an interest rate of 4.25%. The final payment is scheduled for June 1, 2016. The remaining five annual payments range from $31,275 to $36,375.

The 2008 G.O. bonds that were issued for the City Hall and Center Avenue projects have an outstanding balance of $555,000. The interest rates on these bonds range from 3.1% to 3.9%. The final payment will be made on June 1, 2018. The City split the annual payment for this G.O. debt between a debt service levy of $43,075 and a transfer from the Road Use Tax Fund of $26,500 in FY 2011-12. The City has the option of funding the entire annual payments with a property tax debt service levy.

2. Projections – Debt Service Levy – Exhibit C

Exhibit C has been prepared to project the City's debt service levy from 2012 to 2018. The City's current debt service levy is $2.63 per $1,000 of taxable valuation. The City's taxable valuation for the debt service levy was $42,782,935, as of July 1, 2011. The tax levy of $2.63 per $1,000 will generate about $112,400 in FY 2011-12. This current debt service levy will have the following impact on actual property tax payments for the following three examples:

Assessed Value	Taxable Value After Rollback	Annual Taxes Due
$100,000 Home	$48,530	$127.50
$150,000 Home	$72,795	$191.25
$200,000 Home	$97,060	$255.00

The projections of the City's debt service levy from 2012 to 2018 in Exhibit C were made with the following assumptions:

1. The City would not issue any additional debt that would be paid with the property tax debt service levy.
2. The City's taxable valuation would remain in the range of $45,000,000 over the next six years.
3. Since the 1997 storm sewer G.O. loan will be retired and will not have a payment in FY 2012-13, the full amount of the City Hall/Center Avenue G.O. bonds annual payment will be shifted back to the property tax debt service levy, which would "free up" the Road Use Tax money for street repairs.
4. Any State of Iowa modifications to the commercial property valuation would not result in an overall decline in taxable valuation.

5. The City will continue to pay for any bond registrar fees from the debt service fund, which has been estimated at $500 per debt per year.
6. The City will continue to retire the 2006 Water G.O. Notes with a transfer from the Water Utility fund and not a debt service levy. If the City were to shift the payments for this debt from the water user fees to property taxes, it would add $70 to the annual property tax bills for homes with an assessed valuation of $100,000.
7. The City will continue to retire the 2009 Ambulance G.O. loan with a transfer of ambulance fees from the Ambulance Fund to the Debt Service Fund.
8. Since the City Comprehensive Plan shows that 71% of the City's homes fall within the range of $100,000 to $200,000 in assessed valuation, Exhibit D provides three examples of the financial impact on residential properties - $100,000, $150,000, and $200,000.

3. Future Debt Service Levies

If the City does not issue any additional G.O. bonds, the City's property tax debt service levy will remain in the range of $2.60 per $1,000 of taxable valuation for the next four years. When the library debt is retired in 2016, the debt service levy will decline to about $1.90 per $1,000 of taxable valuation in FY 2017 and FY 2018.

4. Interest Rates

One of the factors that impacts the City's debt service levy is interest rates. Interest rates are currently very low for general obligation loans, bonds, and notes. Recent G.O. bond sales for City projects have interest rates ranging from 0.75% for year one maturities to 3.65% for year fifteen maturities. While interest rates have been very low in recent years, there is no guarantee that the rates will remain low over the term of this capital improvements plan. Therefore, a conservative approach will be taken to calculate interest rates in the future and the impact on the City's property tax debt service levy. Exhibit D has been prepared to demonstrate the impact of $1,000,000 general obligation bond on the City's property tax debt service levy based upon 10 and 15 year debt retirement schedules.

The amount of $1,000,000 was used for the purposes of simplifying the math when comparing this amount to various projects. For example, if the City were to issue $800,000 for a storm sewer project, the payments for this project would basically be 80% of the amounts shown on the illustration in Exhibit D.

EXHIBIT C

CITY OF MITCHELVILLE: DEBT SERVICE LEVY PROJECTIONS – CURRENT G.O. DEBT

Fiscal Year	FY2011-12 (Actual)	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Debt Service Payments								
Storm Sewer - 1997 G.O.	$31,500							
Library Project – 2007 G.O.	$36,375	$35,100	$33,825	$32,550	$31,275			
Center/City Hall – 2008 G.O.	$43,075	$78,025	$81,105	$83,960	$81,580	$84,130	$86,355	$88,315
Future Project								
Future Project								
Bond Fees	$1,500	$1,000	$1,000	$1,000	$1,000	$500	$500	$500
Total Obligation	$112,450	$114,125	$115,930	$117,510	$113,855	$84,630	$86,855	$88,815
Taxable Valuation	$42,782,935	$45,200,000	$45,200,000	$45,200,000	$45,200,000	$45,200,000	$45,200,000	$45,200,000
Debt Service Levy	$2.63	$2.52	$2.56	$2.60	$2.52	$1.87	$1.92	$1.96
Impact - $100,000 Home	$127.50	$127.89	$129.92	$131.95	$127.90	$94.91	$97.44	$99.47
Impact - $150,000 Home	$191.25	$191.84	$194.88	$197.93	$191.85	$142.37	$146.16	$149.21
Impact - $200,000 Home	$255.00	$255.78	$259.85	$263.90	$255.80	$189.82	$194.89	$198.95

Revised March 1, 2012 by Patrick Callahan

EXHIBIT D

CITY OF MITCHELVILLE: GENERAL OBLIGATION BOND ILLUSTRATION

G.O. BONDS - $1,000,000 EXAMPLE

	10 Year Term	15 Year Term
Amount of G.O. Debt	$1,000,000	$1,000,000
Interest Rate Estimate	4.0%	4.5%
Average Annual Payments	$123,300	$93,100
Taxable Valuation for D.S Levy	$45,200,000	$45,200,000
Debt Service Levy per $1,000	$2.73	$2.06
Roll Back Estimate – 2012	.0507518	.0507518
Impact on Property Taxes		
House- $100,000 Assessed Value ($50,750 Taxable)	$138.55	$104.55
House- $150,000 Assessed Value ($76,125 Taxable)	$208.13	$156.83
House- $200,000 Assessed Value ($101,500 Taxable)	$277.10	$209.10

Prepared February 27, 2012 by Patrick Callahan

Notes:

1. The City's current taxable valuation is $45,199,608
2. The current State rollback is 50.7518%