



CITY OF PELLA

CITY COUNCIL OFFICIAL MINUTES

May 12, 2020

A. CALL TO ORDER BY MAYOR AND ROLL CALL

The City Council of the City of Pella, Iowa, met in special session at the Public Safety Complex (614 Main Street) at 6:00 p.m., Mayor Don DeWaard presiding. Council members present were: Mark De Jong, Liz Sporrer, Lynn Branderhorst, Calvin Bandstra, Bruce Schiebout, Dave Hopkins. Absent: None.

City Administrator Mike Nardini and City Clerk Mandy Smith were present. Two staff members signed the register. Due to heightened public health risks associated with the COVID-19 pandemic, accommodations were made to broadcast this meeting via conference call. Two staff members and five members of the general public attended the conference call.

B. MAYOR'S COMMENTS

1. Announce Policy and Planning meeting following the regular Council meeting to discuss:
 - a. Development Update.
2. Approval of Tentative Agenda.
De Jong moved to approve, seconded by Bandstra.
On roll call the vote was: AYES: 6, NAYS: None. Motion carried.
3. Announce exempt session pursuant to Iowa Code Chapter 21.9 to discuss employment conditions of employees not covered by collective bargaining agreements.

***PUBLIC FORUM (for anyone wishing to address Council regarding agenda items)**

No comments were received.

C. RESOLUTIONS

1. \$4,326,000 Communications Utility Revenue Capital Loan Notes, Series 2020A:
 - a. Motion for Approval of Tax Exemption Certificate.
Schiebout moved to approve, seconded by Hopkins.
On roll call the vote was:
AYES: 5 (Schiebout, Hopkins, Sporrer, De Jong, Branderhorst)
NAYS: None
ABSTAIN due to a conflict of interest: 1 (Bandstra)
Motion carried.
 - b. Resolution No. 6126 entitled, "A RESOLUTION APPROVING AND AUTHORIZING A FORM OF LOAN AGREEMENT AND AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SECURING THE PAYMENT OF \$4,326,000 COMMUNICATIONS UTILITY REVENUE CAPITAL LOAN NOTES, SERIES 2020A, OF THE CITY OF PELLA, STATE OF IOWA, UNDER THE PROVISIONS OF THE CITY CODE OF IOWA, AND PROVIDING FOR A METHOD OF PAYMENT OF THE NOTES."
Schiebout moved to approve, seconded by Sporrer.
On roll call the vote was:
AYES: 5 (Schiebout, Sporrer, De Jong, Branderhorst, Hopkins)
NAYS: None
ABSTAIN due to a conflict of interest: 1 (Bandstra)
Motion carried.

BACKGROUND: The proposed resolution approves and authorizes a loan agreement for \$4,326,000 of Communication Utility Revenue Loan Notes for the City's municipal telecommunications utility, known as Pella Fiber. These notes will be utilized to cover one half of the capital costs associated with the utility, while Capital Loan Notes 2020G will be used pay for the other half of the improvements.

Uses of Funds

Over the past several years, the City made material efforts to plan for the implementation of the new utility. As part of the process, the City has worked with engineers, legal counsel, and financial advisors to develop a plan for implementation. In doing so, the following capital costs were identified:

	Total	Series A	Series G
Construction & Equipment	\$7,868,185.00	3,934,093	3,934,093
Capitalized Interest	278,558	139,279	139,279
Issuance Costs/Rounding	205,257	102,629	102,629
Contingency	300,000	150,000	150,000
Non Project Total	\$783,815	391,908	391,908
Total Costs	\$8,652,000	4,326,000	4,326,000

Key Terms

The City’s financial advisor has worked diligently with local and regional lenders who had interest in supporting such an important community project. Bank Iowa has stepped forward in support of Series A, while Cedar Rapids Bank and Trust will be supporting Series G. In doing so, the City was able to realize competitive interest rates and financing terms, particularly given the current economic conditions and the infancy of the utility. The following are some of the key terms included in the agreement:

- Total amount: Up to \$4,326,000
- Interest rate: 3.375% fixed for 7 years; resetting on June 1, 2027
- Closing date: May 28, 2020
- Maturity date: June 1, 2035

In addition to the key terms listed above, it’s also important to note that the loan will operate on a draw-down method, which means as expenses are incurred, they will be submitted to the lender for reimbursement. In the event less than the full amount is advanced to the City, the annual principal payments will be adjusted through the end of life of issuance. Additionally, the loan is callable at any time without penalty.

As noted above, the interest rate on the proposed issuance is 3.375% and resets after seven years. In June of 2027, the interest rate will reset to the average of the five-year daily treasury yield curve rate plus 2.55%. The agreement also limits the minimum interest rate to 3.375% and maximum rate to 7%. The loan includes capitalized interest through December 1, 2021 with the first principal payment occurring on June 1, 2024.

The agreement also requires certain security pledges which are customary for municipal utility borrowing. For both Series 2020A and Series 2020G, the security pledge includes net revenue requirements for the utility. Specifically, the pledge requires a rate maintenance coverage of 110% by June 30, 2023. This means the utility must set rates that generate \$1.10 of net revenue for every \$1.00 of debt service. Additionally, for the City to issue any future debt, the utility must be able to meet the coverage requirement of both the current and the proposed debt issuance.

Annual Payments

As noted above, in order to minimize the immediate financial impact of the annual debt service payments on the operations of the utility, the loan agreement capitalizes the interest through December 1, 2021. Additionally, the repayment schedule does not include an initial principal payment until June 1, 2024, at which time the annual principal payments will increase gradually through June 1, 2026, stabilizing thereafter. Once full principal and interest payments begin, assuming the utility draws the full loan amount, the annual debt service payments are anticipated to amount to approximately \$980,000 per year.

There are two items listed on the agenda for consideration related to this item:

1. Agenda item C-1-a: Approve form of Tax Exemption Certificate
The Tax Exemption Certificate sets out in detail a number of facts, promises, and obligations which must be met and agreed to by the City in order to maintain these Notes as tax exempt. These requirements primarily include arbitrage requirements for the bond proceeds and restrictions for private duty use. It is important to note, staff has reviewed these requirements with bond counsel, and we are recommending approval.
2. Agenda item C-1-b: Resolution No. 6126
This resolution approves and authorizes the loan agreement as outlined within this memo.

In summary, the City Council has worked diligently over the past several years to prepare the City for the development of a telecommunications utility. Approving this resolution would provide the needed funds to support capital costs necessary to support the utility.

- ATTACHMENTS: Resolution, Tax Exemption Certificate
- REPORT PREPARED BY: Finance Director
- REPORT REVIEWED BY: City Administrator, City Clerk
- RECOMMENDATION: Approve resolution

2. \$4,326,000 Communications Utility Revenue Capital Loan Notes, Series 2020G:

- a. Motion for Approval of Tax Exemption Certificate.
Hopkins moved to approve, seconded by De Jong.
On roll call the vote was: AYES: 6, NAYS: None. Motion carried.
- b. Resolution No. 6127 entitled, “A RESOLUTION APPROVING AND AUTHORIZING A FORM OF LOAN AGREEMENT AND AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SECURING THE PAYMENT OF \$4,326,000 COMMUNICATIONS UTILITY REVENUE CAPITAL LOAN NOTES, SERIES 2020G, OF THE CITY OF PELLA, STATE OF IOWA, UNDER THE PROVISIONS OF THE CITY CODE OF IOWA, AND PROVIDING FOR A METHOD OF PAYMENT OF THE NOTES.”

Hopkins moved to approve, seconded by Sporrer.
On roll call the vote was: AYES: 6, NAYS: None. Motion carried.

BACKGROUND: The proposed resolution approves and authorizes a loan agreement for \$4,326,000 of Communication Utility Revenue Loan Notes for the City’s municipal telecommunications utility, known as Pella Fiber. These notes will be utilized to cover one half of the capital costs associated with the utility, while Capital Loan Notes 2020A will be used pay for the other half of improvements.

Uses of Funds

Over the past several years the City made material efforts to plan for the implementation of the new utility. As part of the process the City has worked with engineers, legal counsel and financial advisors to develop a plan for implementation. In doing so, the following capital costs were identified:

	Total	Series A	Series G
Construction & Equipment	\$7,868,185.00	3,934,093	3,934,093
Capitalized Interest	278,558	139,279	139,279
Issuance Costs/Rounding	205,257	102,629	102,629
Contingency	300,000	150,000	150,000
Non Project Total	\$783,815	391,908	391,908
Total Costs	\$8,652,000	4,326,000	4,326,000

Key Terms

The City's financial advisor has worked diligently with local and regional lenders who had interest in supporting such an important community project. Cedar Rapids Bank and Trust has stepped forward in support of Series G, while Bank Iowa will be supporting Series A. In doing so the City was able to realize competitive interest rate and financing terms, particularly given the current economic conditions and the infancy of the utility. The following are some of the key terms included in the agreement:

- Total amount: Up to \$4,326,000
- Interest rate: 3.375% fixed for 7 years; resetting on June 1, 2027
- Closing date: May 28, 2020
- Maturity date: June 1, 2035

In addition to the key terms listed above, it's also important to note that the loan will operate on a draw-down method, which means as expenses are incurred, they will be submitted to the lender for reimbursement. In the event less than the full amount is advanced to the City, the annual principal payments will be adjusted through the end of life of issuance. Additionally, the loan is callable at any time without penalty.

As noted above, the interest rate on the proposed issuance is 3.375% and resets after seven years. In June of 2027, the interest rate will reset to the average of the five-year daily treasury yield curve rate plus 2.55%. The agreement also limits the minimum interest rate to 3.375% and maximum rate to 7%. The loan includes capitalized interest through December 1, 2021 with the first principal payment occurring on June 1, 2024.

The agreement also requires certain security pledges which are customary for municipal utility borrowing. For both Series 2020A and Series 2020G, the security pledge includes net revenue requirements for the utility. Specifically, the pledge requires a rate maintenance coverage of 110% by June 30, 2023. This means the utility must set rates that generate \$1.10 of net revenue for every \$1.00 of debt service. Additionally, for the City to issue any future debt, the utility must be able to meet the coverage requirement of both the current and the proposed debt issuance.

Annual Payments

As noted above, in order to minimize the immediate financial impact of the annual debt service payments on the operations of the utility, the loan agreement capitalizes the interest through December 1, 2021. Additionally, the repayment schedule does not include an initial principal payment until June 1, 2024, at which time the annual principal payments will increase gradually through June 1, 2026, stabilizing thereafter. Once full principal and interest payments begin, assuming the utility draws the full loan amount, the annual debt service payments are anticipated to amount to approximately \$980,000 per year.

There are two items listed on the agenda for consideration related to this item:

1. Agenda item C-2-a: Approve form of Tax Exemption Certificate
The Tax Exemption Certificate sets out in detail a number of facts, promises, and obligations which must be met and agreed to by the City in order to maintain these Notes as tax exempt. These requirements primarily include arbitrage requirements for the bond proceeds and restrictions for private duty use. It is important to note, staff has reviewed these requirements with bond counsel, and we are recommending approval.
2. Agenda item C-2-b: Resolution No. 6127
This resolution approves and authorizes the loan agreement as outlined within this memo.

In summary, the City Council has worked diligently over the past several years to prepare the City for the development of a telecommunications utility. Approving this resolution would provide the needed funds to support capital costs necessary to support the utility.

- ATTACHMENTS: Resolution, Tax Exemption Certificate
- REPORT PREPARED BY: Finance Director
- REPORT REVIEWED BY: City Administrator, City Clerk
- RECOMMENDATION: Approve resolution

3. \$1,800,000 Taxable Communications Utility Revenue Capital Loan Notes, Series 2020B:
 - a. Resolution No. 6128 entitled, "A RESOLUTION APPROVING AND AUTHORIZING A FORM OF LOAN AGREEMENT AND AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SECURING THE PAYMENT OF \$1,800,000 TAXABLE COMMUNICATIONS UTILITY REVENUE CAPITAL LOAN NOTES, SERIES 2020B, OF THE CITY OF PELLA, STATE OF IOWA, UNDER THE PROVISIONS OF THE CITY CODE OF IOWA, AND PROVIDING FOR A METHOD OF PAYMENT OF THE NOTES."

Schiebout moved to approve, seconded by Branderhorst.

On roll call the vote was: AYES: 6, NAYS: None. Motion carried.

BACKGROUND: The proposed resolution approves and authorizes a loan agreement for \$1,800,000 of Communication Utility Revenue Loan Notes for the City's municipal telecommunications utility, known as Pella Fiber. These notes will be utilized to cover the startup or "runway" costs associated with the utility.

Uses of Funds

Over the past several years, the City made material efforts to plan for the implementation of the new utility. As part of the process, the City has worked with engineers, legal counsel, and financial advisors to develop a plan for implementation. In order to carry out the implementation of the utility, expenses must be incurred prior to the generation of any revenue and, therefore, require the City to borrow the necessary funds in the interim. Based on recommendations from staff, as well as feedback from technical and financial advisors, the recommended loan agreement amount is \$1,800,000.

Key Terms

The City's financial advisor has worked diligently with local and regional lenders who had interest in supporting such an important community project. Marion County Bank has stepped forward in supporting the project through the purchasing of Series 2020B. In doing so, the City was able to realize a competitive interest rate and financing terms, particularly given the current economic conditions and the infancy of the utility. The following are some of the key terms included in the agreement:

Total amount: Up to \$1,800,000

Interest rate: 4% fixed for 7 years; resetting on June 1, 2027

Closing date: May 28, 2020

Maturity date: June 1, 2035

In addition to the key terms listed above, it's also important to note that the loan will operate on a draw-down method, which means as expenses are incurred, they will be submitted to the lender for reimbursement. In the event less than the full amount is advanced to the City, the annual principal payments will be adjusted through the end of life of issuance. Additionally, the loan is callable at any time without penalty.

As noted above, the interest rate on the proposed issuance is 4% and resets after seven years. In June of 2027, the interest rate will reset to the average of the five-year daily treasury yield curve rate plus 3.25%. The agreement also limits the minimum interest rate to 4% and maximum rate to 7.5%. The loan includes capitalized interest through December 1, 2021 with the first principal payment occurring on June 1, 2024.

The agreement also requires certain security pledges which are customary for municipal utility borrowing. For series 2020B, the security pledge includes net revenue requirements for the utility. Specifically, the pledge requires a rate maintenance coverage of 110% by June 30, 2023. This means the utility must set rates that generate \$1.10 of net revenue for every \$1.00 of debt service. Additionally, for the City to issue any future debt, the utility must be able to meet the coverage requirement of both the current and the proposed debt issuance.

Annual Payments

As noted above, in order to minimize the immediate financial impact of the annual debt service payments on the operations of the utility, the loan agreement capitalizes the interest through December 1, 2021. Additionally, the repayment schedule does not include an initial principal payment until June 1, 2024, at which time the annual principal payments will increase gradually through June 1, 2026, stabilizing thereafter. Once full principal and interest payments begin, assuming the utility draws the full loan amount, the annual debt service payments are anticipated to amount to just over \$200,000 per year.

In summary, the City Council has worked diligently over the past several years to prepare the City for the development of a telecommunications utility. Approving this resolution would provide the needed funds to support the operating (runway) costs until the utility begins to generate sufficient revenue.

ATTACHMENTS: Resolution

REPORT PREPARED BY: Finance Director

REPORT REVIEWED BY: City Administrator, City Clerk

RECOMMENDATION: Approve resolution

4. Resolution No. 6129 entitled, "RESOLUTION APPROVING CONSTRUCTION CONTRACT AND BOND." Bandstra moved to approve, seconded by Hopkins.

On roll call the vote was: AYES: 6, NAYS: None. Motion carried.

BACKGROUND: As background, on April 21, 2020, Council awarded the Fiber to the Home Network project to Excel Utility Contractors for the full build in the amount of \$8,800,161.38. A notice to proceed was issued for only the outside plant portion of the project, which is \$7,402,579.68.

As further background, this project generally consists of extending fiber optic network to all homes and businesses within the corporate limits. The proposed network will allow the City of Pella to provide telecommunications services to our citizens in accordance with the May 2018 referendum which was approved with a 92% support level. The proposed fiber optic network will also be utilized by the electric utility to provide Advanced Metering Infrastructure (AMI) to its customers. Utilization of AMI will allow automation of many of the manual processes currently used to support the City's utilities. This includes automatic and remote measuring of electric usage, connection and disconnection of service, detection of tampering, identifying and isolating outages, as well as monitor voltage.

The proposed project consists of all materials, equipment, transportation, and labor necessary to construct the network's outside plant infrastructure for a PON fiber to the home (FTTH) system. It is important to note, the material does not include any access equipment, which will be bid at a later date. The resolution under consideration approves the construction contract and performance bond with Excel Utility Contractors.

ATTACHMENTS: Resolution, Contract

REPORT PREPARED BY: City Administration

REPORT REVIEWED BY: City Administrator, City Clerk

RECOMMENDED ACTION: Approve resolution

D. OTHER BUSINESS / *PUBLIC FORUM (any additional comments from the public)

No comments were received.

E. EXEMPT SESSION

1. At 6:18 p.m., De Jong moved to enter into exempt session pursuant to Iowa Code Chapter 21.9 to discuss employment conditions of employees not covered by collective bargaining agreements, seconded by Schiebout.

On roll call the vote was: AYES: 6, NAYS: None. Motion carried.

At 6:25 p.m., De Jong moved to reconvene to regular session, seconded by Schiebout.

On roll call the vote was: AYES: 6, NAYS: None. Motion carried.

Schiebout made a motion to approve Resolution No. 6130 entitled, "RESOLUTION AMENDING INFECTIOUS DISEASE ACTION PLAN/POLICY RELATED TO THE COVID-19 PUBLIC HEALTH CRISIS," seconded by Hopkins.

On roll call the vote was: AYES: 6, NAYS: None. Motion carried.

F. ADJOURNMENT

There being no further business claiming their attention, Bandstra moved to adjourn, seconded by Hopkins.

On roll call the vote was: AYES: 6, NAYS: None. Motion carried.

Meeting adjourned at 6:28 p.m.