

City of Muscatine Local Option Tax History and Proposed Extension Plan

Prepared by City of Muscatine Finance Department
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History of Local Option Sales Tax in the City of Muscatine

- **May, 1994** - Voters in the City of Muscatine first approved a 1% Local Option Sales Tax. This tax went into effect July 1, 1994 and was approved for a 5-year period through June 30, 1999. Per the ballot question, all of the proceeds of the tax were required to be used for storm and sanitary sewer projects.
- **August, 1998** – Voters approved extension of the tax for another 5 years through June 30, 2004, with proceeds to continue to be used for storm and sanitary sewer projects.
- **January, 2003** – Voters approved using up to 10% of the tax to assist in financing the Pearl of the Mississippi projects.
- **January, 2004** – Voters approved extending this tax for an additional 5 years, through June 30, 2009, with up to 10% of the tax to be used for the Pearl of the Mississippi projects with the balance for storm and sanitary sewer projects.
- **August, 2008** – Voters approved extending this tax for an additional 10 years, through June 30, 2019, with up to 20% of the tax to be used for pavement management projects, with the balance to be used for storm and sanitary sewer projects.

Local Option Tax Collections and Projects Funded - FY 1994/1995 through FY 2016/2017

- **\$54,377,807** – Total Local Option Sales Tax revenue for the 23-year period from July 1, 1994 through June 30, 2017.
- **\$1,286,824** – Interest earned on tax collections.
- **\$55,426,873** – Total of the sewer, street, and Pearl of the Mississippi project costs funded with the local option tax and interest through June 30, 2017.
- **\$49,723,406** – Sewer projects funded.
- **\$4,254,124** – Pavement Management/Street projects funded.
- **\$1,449,343** – Pearl of the Mississippi project costs funded.

Sewer Projects Funded from Local Option Sales Tax

- **A total of 32 sewer projects have been funded in total or in part from the Local Option Sales Tax during the 23 years the tax has been in effect. Major projects were:**

Upper Orange/Oak Streets Sewer Separation	\$ 3,095,919
Southend Sewer Extension - Phase 1	3,599,893
Southend Sewer Extension - Phase 2	4,947,654
Central Business District Sewer	2,528,209
Mad Creek Area (Oak Street) Sewer	3,545,066
Hershey Avenue Sewer Separation	8,474,129
West Hill Sewer Separation - Phase 1 through a portion of Phase 3-C	14,254,752
Other Projects (25)	<u>9,277,784</u>
 Total through FY 2016/2017	 <u>\$ 49,723,406</u>

- **Using Local Option Tax has allowed for these projects to be completed without borrowing funds and incurring interest.**

Pearl of the Mississippi Projects Funded from Local Option Taxes

- **The \$10.67 million Pearl of the Mississippi Project included eight projects - the Weed Park Aquatic Center, American Heritage Trail Extension, Musser Park Skatepark, community art, marina improvements, boat launch relocation, Riverview Center renovation and the Environmental Learning Center. This overall project was funded from a \$1,000,000 State Community Attractions and Tourism Grant, local contributions, other State grants, County funds for the Environmental Learning Center, City bond proceeds, and \$1,449,343 from the 10% allocation of the City's local option sales tax. The 10% local option tax allocation from FY 2002/2003 through FY 2008/2009 completed the financing for these projects.**

Pavement Management Projects Funded from Local Option Sales Tax

- **Beginning in FY 2009/2010, 20% of Local Option Sales Taxes have been allocated to Pavement Management/Street improvement projects. This 20% allocation has averaged approximately \$533,000 per year.**
- **For the first 8 years of this allocation (FY 2009/2010 through FY 2016/2017), local option taxes funded \$4,254,123 of street improvement projects.**
- **Local Option Tax funds have been used to supplement Road Use Tax funds allocated for the annual asphalt overlay and full-depth concrete patching programs. The annual programs and specific projects funded over the past 8 years are as follows:**

Annual Asphalt Overlay and Full-Depth Concrete Patching Programs	\$ 3,622,822
Cedar Street Reconstruction Project	145,000
Colorado Street Reconstruction Project	150,000
Diana Queen Drive Extension Project	<u>356,301</u>
 Total FY 2009/2010 through FY 2016/2017	 <u>\$ 4,274,123</u>

E.P.A. Consent Order for Separation of Combined Sewers

- **In 2007 the City signed a Consent Order with the Environmental Protection Agency (E.P.A.) which requires the City to complete specific major sewer separation projects by 2028.**
- **Construction on the second and final phase of the Hershey Avenue sewer improvement project was completed in 2011/2012. This was a major project mandated by the Consent Order.**
- **The remaining project in the Consent Order is the separation of the combined sewers in the West Hill area.**
- **There would have been more sewer separation projects mandated by the Consent Order if the City had not already been addressing these projects in other areas of the City with funding from the Local Option Sales Tax beginning in 1994.**

West Hill Sewer Separation Project – Project Cost Estimate – Phases 4, 5 and 6

- **Construction is nearing completion on Phase 3-C of the West Hill Sewer Separation project. Once Phase 3-C is completed, the overall West Hill Sewer Separation project is approximately 35% completed.**
- **Stanley Consultants has prepared a cost estimate for the remaining phases of the West Hill Sewer project.**
- **This cost estimate is for Phase 4 (A, B, and C), Phase 5 (A, B, and C) , and Phase 6 (A, B, C, D, and E). The total estimated contract costs for these phases is \$32,056,477 and total project costs (including engineering, project management, legal, etc.) are estimated at \$40,070,596. These estimates include a 3% annual escalation factor.**

Long-Term Financing Plan - West Hill Sewer Separation Project

- **Public Financial Management (PFM), the City's financial consultant, prepared a long-term financing plan for the West Hill project based on the project cost estimates in the schedule prepared by Stanley Consultants.**
- **The City has been setting aside \$400,000 each fiscal year since 2011/2012 to assist in financing the West Hill Sewer project (\$200,000 from the WPCP fund and \$200,000 from the Collection and Drainage fund). These funds are available to supplement the 80% allocation of Local Option Sales Tax being used to fund the West Hill Sewer project (approx. \$2 million each year).**
- **Local Option Sales Taxes (subject to voter approval at the referendum) and the set-aside funds are projected to be sufficient to fund project costs for all phases of Phase 4 and Phase 5.**
- **A State Revolving Fund (SRF) Loan is projected to be needed by 2023 to fund all 5 phases of Phase 6 plus the work required at the Papoose Pumping Station at the end of the project.**

Long-Term Financing Plan - West Hill Sewer Separation Project (Cont.)

- **Based on current project cost estimates, PFM estimates the SRF Loan needed to complete the financing of this project at \$22,800,000. Initial interest on this loan would be based on Loan proceeds drawn down as needed for project costs. The interest rate for the SRF loan is 2.0%.**
- **PFM has prepared a preliminary SRF Loan repayment schedule showing principal and interest payments on a 10 year loan with the final year of the loan in 2033/2034.**
- **The PFM financing plan is based on renewal of the Local Option Tax and continuation of the 80% allocation for sewer projects through the Loan repayment period (through June 30, 2034).**
- **This would require the Local Option Tax be in place from its current expiration date of June 30, 2019 through June 30, 2034. This would require a 15 year Local Option Tax period which is the term included in the Local Option Tax renewal referendum.**

Summary of Key Items for the Local Option Sales Tax Renewal Referendum

- At the November 16, 2017 meeting, City Council approved the ballot question and set the date for the referendum to consider continuing the Local Option Tax.
- **The Ballot Question reads:** “Shall the local sales and service tax be continued in the City of Muscatine at the rate of 1% to be effective from July 1, 2019 until June 30, 2034? Revenues from the sales and service tax are to be allocated as follows: Not less than 80% for sanitary and storm sewer projects including principal and interest payments on debt issued for those projects; up to 20% for the Pavement Management Program; and 0% to property tax relief.”
- **Term** of Local Option Tax renewal – proposed 15 year Local Option Tax period.
- **Referendum Date** –March 6, 2018
- Having the Local Option Tax in place to fund project costs and debt service for this project would mean that (1) the City’s property tax rate would not be impacted by this project, and (2) sewer rates would also not be impacted.
- This information is being provided to the public as they consider the proposed extension of the Local Option Sales Tax. The extension would allow for the completion of the West Hill Sewer Separation project by the Consent Order deadline, completion of the financing of this project, and would also allow funds to continue street improvements in the City.