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FINANCE & RECORDS

MEMO

To: Gregg Mandsager, City Administrator

From: Nancy A. Lueck, Finance Director

Date: January 14, 2013

Re: Resolution Taking Additional Action to Enter into a Loan Agreement and Authorizing the Use of a Terms of Offering for Refunding of the June 1, 2006 General Obligation Bond Issue

Introduction and Background:

Public Financial Management, Inc. (PFM), the City's financial consultant, has analyzed and proposed a refunding of the final three years of the City's June 1, 2006 general obligation bond issue. These bonds have interest rates of 3.90%, 3.95%, and 4.0%, for the bonds maturing June 1 of 2014, 2015, and 2016, respectively. These bonds are callable effective June 1, 2013.

Recommendation:

With the significant decrease in interest rates in recent years, PFM has estimated that the bonds issued to refund the original debt can be issued with interest rates ranging from .50% to .73% for the three years of the new issue. After taking into consideration the costs of issuance of the refunding bonds it is projected that the City will realize an interest savings estimated at \$50,920 over the three years after taking into consideration the refunding bond issuance costs. Since the 2006 bond issue funded landfill property acquisition costs, this savings will be approximately \$10,700 in the Landfill fund and \$40,200 in the Debt Service fund which is funded from the debt service property tax levy.

The refunding bonds are in the total amount of \$1,115,000 with \$370,000 due June 1, 2014, \$370,000 due June 1, 2015, and \$375,000 due June 1, 2016. In discussing the refunding opportunity with Jenny Blankenship of PFM, in order to potentially save on issuance costs, it was decided that the three local banks would be contacted to see if they would be interested in bidding on these bonds. All three banks indicated that they were interested. The estimated cost of issuance in using the local banks instead of publicly bidding these bonds is \$15,500 instead of the originally estimated \$19,500.

The following schedule detailing the actions City Council will need to take related to refunding the final three years of the 2006 bond issue was reviewed at Council's December In Depth meeting:

December 13, 2012	Discuss with City Council
January 3, 2013	Set public hearing
January 17, 2013	Hold public hearing and review Terms of Offering
February 7, 2013	Receive bids on the refunding bonds and award bid
February 21, 2013	Approve final documents on the new issue

Summary:

The public hearing on the proposed loan agreement needed for refunding of the 2006 bond issue is scheduled to be held at the January 17, 2013 Council meeting. After the hearing, the City Council will be asked to consider the attached Resolution taking additional action to enter into a Loan Agreement and authorizing the use of a terms of offering in connection therewith. Public Financial Management (PFM) has prepared the Terms of Offering which is attached to this memo. This document sets February 7, 2013 as the date for receipt of bids on the Refunding Bonds and City Council will consider and take action to award the bid for the Refunding Bonds at their meeting that evening. Please include this resolution on the agenda for the January 17, 2013 meeting. If you have any questions, please contact me.

RESOLUTION NO. _____

Resolution taking additional action to enter into a Loan Agreement and authorizing the use of a terms of offering in connection therewith

WHEREAS, the City of Muscatine (the "City"), in Muscatine County, State of Iowa, previously issued its \$2,990,000 General Obligation Corporate Purpose Bonds, dated June 1, 2006 (the "2006 Bonds") a portion of which currently remain outstanding, maturing on such dates and in such amounts and bearing interest at such rates as follows:

Maturity Date (June 1)	Principal	Rate
2014	\$350,000	3.900%
2015	\$365,000	3.950%
2016	\$380,000	4.000%

WHEREAS, pursuant to the resolution (the "2006 Issuance Resolution") authorizing the issuance of the 2006 Bonds the City reserved the right to call the 2006 Bonds maturing in the years 2014 through 2016 (the "Callable 2006 Bonds") for early redemption on any date on or after June 1, 2013, subject to the provisions of the 2006 Issuance Resolution; and

WHEREAS, the City heretofore proposed to enter into a General Obligation Refunding Loan Agreement (the "Loan Agreement") in a principal amount not to exceed \$1,200,000 pursuant to the provisions of Section 384.24A of the Code of Iowa for the purpose of paying the cost, to that extent, of current refunding the Callable 2006 Bonds, and pursuant to law and a notice duly published, the City Council has held a public hearing on such proposal on January 17, 2013; and

WHEREAS, Terms of Offering (the "Offering Document") has been prepared to facilitate the sale of \$1,115,000 General Obligation Refunding Bonds, Series 2013 (the "Bonds") in evidence of the obligation of the City under the Loan Agreement, and it is now necessary to make provision for the approval of the Offering Document and to authorize its use by Public Financial Management, Inc. (the "Financial Advisor"); and

NOW, THEREFORE, Be It Resolved by the City Council of the City of Muscatine, as follows:

Section 1. The City Council hereby determines to enter into the Loan Agreement in the future and orders that the Bonds be issued at such time, in evidence thereof. The City Council further declares that this resolution constitutes the "additional action" required by Section 384.24A of the Code of Iowa.

Section 2. The City Administrator is hereby authorized to take such action as shall be deemed necessary and appropriate with the assistance of the Financial Advisor to complete preparation of the Offering Document describing the Bonds and providing for the terms and conditions of their sale, and all action heretofore taken in this regard is hereby ratified and approved.

Section 3. The use by the Financial Advisor of the Offering Document relating to the Bonds in substantially the form as has been presented to and considered by the City is hereby approved, and the Financial Advisor is hereby authorized to use the Offering Document in marketing the Bonds to interested financial institutions.

Section 4. Further action with respect to the Bonds and the Loan Agreement is hereby adjourned to the City Council Meeting on February 7, 2013.

Section 5. All resolutions or parts thereof in conflict herewith are hereby repealed to the extent of such conflict.

Passed and approved January 17, 2013.

Mayor

Attest:

City Clerk

STATE OF IOWA
COUNTY OF MUSCATINE
CITY OF MUSCATINE

SS:

I, the undersigned, City Clerk of the City of Muscatine, do hereby certify that as such I have in my possession or have access to the complete corporate records of the City and of its Council and officers and that I have carefully compared the transcript hereto attached with those corporate records and that the transcript hereto attached is a true, correct and complete copy of all the corporate records relating to the authorization of a certain Loan Agreement and General Obligation Refunding Bonds, Series 2013 to be issued in evidence of the City's obligation under the Loan Agreement and that the transcript hereto attached contains a true, correct and complete statement of all the measures adopted and proceedings, acts and things had, done and performed up to the present time with respect thereto.

WITNESS MY HAND this _____ day of January, 2013.

City Clerk



TERMS OF OFFERING
January 10, 2013

\$1,115,000* General Obligation Refunding Bonds, Series 2013

Bids Received:

Thursday, February 7, 2013, 10:00 A.M. Central Time

Award:

Thursday, February 7, 2013, 7:00 P.M. Central Time

* Preliminary; subject to change.

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TERMS OF OFFERING

CITY OF MUSCATINE, IOWA

Bids for the purchase of the City of Muscatine, Iowa's (the "City") \$1,115,000* General Obligation Refunding Bonds, Series 2013 (the "Bonds") will be received on Thursday, February 7, 2013 before 10:00 o'clock A.M. Central Time after which time they will be tabulated. The City Council will consider award of the Bonds at 7:00 o'clock P.M. Central Time, on the same day, or at such other time and place as shall then be announced. Questions regarding the sale of the Bonds should be directed to the City of Muscatine's Finance Director, Ms. Nancy Lueck at 563-264-1550 (ext. 110). The following sets forth the description of certain terms of the Bonds with which all bidders and bid proposals are required to comply, as follows:

* Preliminary, subject to change.

AUTHORITY AND PURPOSE

The Bonds are being issued by the City pursuant to Division III of Chapter 384 of the Code of Iowa and a resolution to be adopted by the City Council of the City. The Bonds are being issued to pay the costs to current refund on June 1, 2013, \$1,095,000 of the City's outstanding General Obligation Corporate Purpose Bonds, Series 2006 originally dated June 1, 2006 (the "Series 2006 Bonds"). The purchaser of the Bonds agrees to enter into a loan agreement (the "Loan Agreement") with the City pursuant to authority contained in Section 384.24A of the Code of Iowa. The Bonds are issued in evidence of the City's obligations under the Loan Agreement.

<u>Name of Issue to be Refunded</u>	<u>Call Date</u>	<u>Call Price</u>	<u>Maturities to be Refunded</u>	<u>Principal Amount</u>	<u>Coupon</u>
Series 2006 Bonds	June 1, 2013	100%	June 1, 2014	\$350,000	3.900%
			June 1, 2015	365,000	3.950%
			June 1, 2016	<u>380,000</u>	4.000%
				\$1,095,000	

DETAILS OF THE BONDS

The GENERAL OBLIGATION REFUNDING BONDS, SERIES 2013, in the principal amount of \$1,115,000*, to be dated the date of delivery (March 7, 2013), will be in the denomination of \$5,000 or multiples thereof, and will mature on June 1 as follows:

<u>Year</u>	<u>Amount*</u>
2014	\$370,000
2015	370,000
2016	375,000

* Preliminary; subject to change. The City reserves the right to increase or decrease the aggregate principal amount of the Bonds by such amount as may be necessary to implement the refunding of the Series 2006 Bonds. Such change will be in increments of \$5,000. The purchase price will be adjusted proportionately to reflect any change in issue size.

OPTIONAL REDEMPTION

The Bonds are callable at any time.

INTEREST

Interest on the Bonds will be payable on December 1, 2013 and semiannually on the 1st day of June and December thereafter. Interest and principal shall be paid to the registered holder of a bond as shown on the records of ownership maintained by the City's Financial Director (the "Registrar") as of the 15th day of the month next preceding the interest payment date (the "Record Date"). Interest will be computed on the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board.

PAYMENT OF AND SECURITY FOR THE BONDS

The Bonds are general obligations of the City and the unlimited taxing powers of the City are irrevocably pledged for their payment. Upon issuance of the Bonds, the City will levy taxes for the years and in amounts sufficient to provide 100% of annual principal and interest due on all the Bonds. If, however, the amount credited to the debt service fund for payment of the Bonds is insufficient to pay principal and interest, whether from transfers or from original levies, the City must use funds in its treasury and is required to levy ad valorem taxes upon all taxable property in the City without limit as to rate or amount sufficient to pay the debt service deficiency.

Nothing in the resolution authorizing the Bonds prohibits or limits the ability of the City to use legally available moneys other than the proceeds of the general ad valorem property taxes levied as described in the preceding paragraph to pay all or any portion of the principal of or interest on the Bonds. If and to the extent such other legally available moneys are used to pay the principal of or interest on the Bonds, the City may, but shall not be required to, (a) reduce the amount of taxes levied for such purpose, as described in the preceding paragraph; or (b) use proceeds of taxes levied, as described in the preceding paragraph, to reimburse the fund or account from which such other legally available moneys are withdrawn for the amount withdrawn from such fund or account to pay the principal of or interest on the Bonds.

The City's obligation to pay the principal of and interest on the Bonds is on a parity with the City's obligation to pay the principal of and interest on any other of its general obligation debt secured by a covenant to levy taxes within the City, including any such debt issued or incurred after the issuance of the Bonds. The resolution authorizing the Bonds does not restrict the City's ability to issue or incur additional general obligation debt, although issuance of additional general obligation debt is subject to the same constitutional and statutory limitations that apply to the issuance of the Bonds. For a further description of the City's outstanding general obligation debt upon issuance of the Bonds and the annual debt service on the Bonds, see DIRECT DEBT under CITY INDEBTEDNESS herein. For a description of certain constitutional and statutory limits on the issuance of general obligation debt, see DEBT LIMIT under CITY INDEBTEDNESS herein.

BONDS REGISTRATION

The Bonds shall be fully registered as to principal and interest in the name of the owner on the registration books of the Registrar, and after such registration, payment of the principal and interest thereof shall be made only to the registered owner, its legal representatives or assigns. It is anticipated that the successful bidder (the "Purchaser") is acquiring the Bonds for their own account and not with a view to resale or for other distribution thereof, and with no present intent to divide the Bonds purchased nor to resell or otherwise dispose of all or any part of the Bonds.

Upon request of the Purchaser, the Bonds may be transferred to book-entry-only form. If this is the intent of the bidder, the bidder must note this request in their official response (see APPENDIX C).

In addition, the Purchaser agrees that it will limit any sale of the Bonds to institutional investors, and that such sale will not be made, and no transfer and registration will be completed, until: a) an investment letter in the form as set forth in the purchase agreement (the "Purchase Agreement") has been executed by such institutional investor; b) such letter is furnished to the Registrar and the transfer agent for the Bonds; and, c) all conditions of the investment letter and the Purchase Agreement are satisfied.

GOOD FAITH DEPOSIT

A good faith deposit (the "Deposit") in the amount of \$11,150 is required from the lowest bidder only. The lowest bidder is required to submit such Deposit payable to the order of the City in the form of either a cashier's check or a wire transfer as instructed by the City's Financial Advisor not later than 12:00 P.M. Central Time on the day of sale of the Bonds. If not so received, the bid of the lowest bidder may be rejected and the City may direct the second lowest bidder to submit a Deposit and thereafter may award the sale of the Bonds to the same. No interest on a Deposit will accrue to the Purchaser. The Deposit will be applied to the purchase price of the Bonds. In the event a Purchaser fails to honor its accepted bid proposal, the Deposit will be retained by the City

FORM OF BIDS AND AWARD

All bids shall be unconditional for the entire issue of the Bonds for a price not less than \$1,115,000, plus accrued interest, and shall specify the rate or rates of interest in conformity to the limitations as set forth under the "RATES OF INTEREST" section. Bids must be submitted on or in substantial compliance with the OFFICIAL BID FORM provided by the City. The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a true interest cost (the "TIC") basis assuming compliance with the "GOOD FAITH DEPOSIT" section. The TIC shall be determined by the present value method, i.e., by ascertaining the semiannual rate, compounded semiannually, necessary to discount to present value as of the dated date of the Bonds, the amount payable on each interest payment date and on each stated maturity date or earlier mandatory redemption, so that the aggregate of such amounts will equal the aggregate purchase price offered therefore. The TIC shall be stated in terms of an annual percentage rate and shall be that rate of interest which is twice the semiannual rate so ascertained. (also known as the Canadian Method). The TIC shall be as determined by the Financial Advisor based on the TERMS OF OFFERING and all amendments, and on the bid as submitted. The Financial Advisor's computation of the TIC of each bid shall be controlling. In the event of tie bids for the lowest TIC, the Bonds will be awarded by lot.

The City will reserve the right to: (i) waive non-substantive informalities of any bid or of matters relating to the receipt of bids and award of the Bonds, (ii) reject all bids without cause and (iii) reject any bid which the City determines to have failed to comply with the terms herein.

RATES OF INTEREST

The rates of interest specified in the bidder's proposal must conform to the following limitations:

1. Each annual maturity must bear a single rate of interest from the dated date of the Bonds to the date of maturity.
2. Rates of interest bid must be in multiples of one-eighth or one-twentieth of one percent.
3. Each rate of interest specified for any annual maturity shall not be less than a rate of interest specified for any earlier maturity. Rates must be level or in ascending order.

RECEIPT OF BIDS

No bid will be accepted after the time specified in the TERMS OF OFFERING. A bid may be withdrawn before the bid deadline using the same method used to submit the bid. If more than one bid is received from a bidder, the last bid received shall be considered.

Sealed Bids: Sealed bids may be submitted and will be received at the office of the City of Muscatine's Finance Director, 215 Sycamore Street, Muscatine, Iowa 52761. Prospective bidders may also call the City's Finance Director, Ms. Nancy Lueck at 563-264-1550 (ext. 110) to submit their bid.

Electronic Facsimile Bids: Electronic facsimile bids will be received at the office of the City of Muscatine's Finance Director (facsimile number: 563-264-0750). Electronic facsimile bids will be sealed and treated as sealed bids.

Electronic facsimile bids received after the deadline will be rejected. Bidders electing to submit bids via facsimile transmission bear full responsibility for the transmission of such bid. Neither the City nor its agents shall be responsible for malfunction or mistake made by any person, or as a result of the use of the facsimile facilities or any other means used to deliver or complete a bid. The use of such facilities or means is at the sole risk of the prospective bidder who shall be bound by the terms of the bid as received. Neither the City nor its agents will assume liability for the inability of the bidder to reach the above named facsimile numbers prior to the time of sale specified above. Time of receipt shall be the time recorded by the facsimile operator receiving the bids.

Internet Bids: Internet bids may be submitted to City of Muscatine's Finance Director, Ms. Nancy Lueck at the following email address: nlueck@muscatineiowa.gov. The OFFICIAL BID FORM can be found in APPENDIX C. Upon receipt, email bids shall be treated as sealed bids. Bids received by email are subject to the same submission deadline. No late entries will be considered.

DELIVERY

The Bonds will be physically delivered to the Purchaser in exchange for full payment in immediately available cash or federal funds. The Bonds are expected to be delivered on or about March 7, 2013. The City will give the Purchaser five working days notice of the delivery date and the City will expect payment in full on that date; otherwise, reserving the right at their option to determine that the Purchaser failed to comply with the offer of purchase.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds and with regard to the tax-exempt or taxable status of the interest thereon (see TAX EXEMPTION AND RELATED TAX CONSIDERATIONS herein) are subject to the approving legal opinion of Dorsey & Whitney LLP, Des Moines, Iowa, Bond Counsel, a form of which is attached hereto as APPENDIX B. Signed copies of the opinion, dated and premised on law in effect as of the date of original delivery of the Bonds, will be delivered to the Purchaser at the time of such original delivery. The Bonds are offered subject to prior sale and to the approval of legality of the Bonds by Bond Counsel.

The legal opinion will express the professional judgment of Bond Counsel and by rendering a legal opinion, Bond Counsel does not become an insurer or guarantor of the result indicated by that expression of professional judgment or of the transaction or the future performance of the parties to the transaction.

Bond Counsel has not been engaged, nor has it undertaken, to prepare or to independently verify the accuracy of the TERMS OF OFFERING, including but not limited to financial or statistical information of the City and risks associated with the purchase of the Bonds, except Bond Counsel has reviewed and/or prepared the information and statements contained in the TERMS OF OFFERING under AUTHORITY AND PURPOSE, PAYMENT OF AND SECURITY FOR THE BONDS, TAX EXEMPTION AND RELATED CONSIDERATIONS and CERTIFICATE OF PURCHASER insofar as such statements contained under such captions purport to summarize certain provisions of the Internal Revenue Code of 1986, the Bonds and any opinions rendered by Bond Counsel. Bond Counsel has prepared the documents contained in APPENDIX B and APPENDIX E.

TAX EXEMPTION AND RELATED CONSIDERATIONS

Federal Income Tax Exemption: The opinion of Bond Counsel will state that under present laws and rulings, the interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes. Interest payable on the Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed under the Internal Revenue Code of 1986 (the "Code") with respect to individuals and corporations, but will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

The opinions set forth in the preceding sentence will be subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds and in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. In the resolutions authorizing the issuance of the Bonds, the City will covenant to comply with all such requirements.

There may be certain other federal tax consequences to the ownership of the Bonds by certain taxpayers, including without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security and Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Bond Counsel will express no opinion with respect to other federal tax consequences to owners of the Bonds. Prospective purchasers of such bonds should consult with their tax advisors as to such matters.

Bank Qualification: In the resolutions authorizing the issuance of the Bonds, the City will designate such Bonds as “qualified tax exempt obligations” within the meaning of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes a portion of the interest expense that is allocable to tax-exempt obligations.

Information Reporting and Back-up Withholding: In general, information reporting requirements will apply with respect to payments to an owner of principal and interest (and with respect to annual accruals of original issue discount) on the Bonds and with respect to payments to an owner of any proceeds from a disposition of the Bonds. This information reporting obligation, however, does not apply with respect to certain owners including corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts. In the event that an owner subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law or is notified by the Service that it has failed to properly report payments of interest and dividends, a backup withholding tax (currently at a rate of 28%) generally will be imposed on the amount of any interest and principal and the amount of any sales proceeds received by the owner on or with respect to the Bonds.

Any amounts withheld under the backup withholding provisions may be credited against the United States federal income tax liability of the beneficial owner, and may entitle the beneficial owner to a refund, provided that the required information is furnished to the Service.

Disclaimer Regarding Federal Tax Discussion: The federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a beneficial owner’s particular situation. Beneficial owners should consult their tax advisors with respect to the tax consequences to them of the purchase, ownership, and disposition of the Bonds, including the tax consequences under state, local, foreign, and other tax laws and the possible effects of changes in federal or other tax laws.

State Tax Considerations: In addition to the federal income tax consequences described above, potential investors should consider the state income tax consequences of the acquisition, ownership, and disposition of the Bonds. State income tax law may differ substantially from the corresponding federal law, and the foregoing is not intended to describe any aspect of the income tax laws of any state. Therefore, potential investors should consult their own tax advisors with respect to the various state tax consequences of an investment in Bonds.

CHANGES IN FEDERAL AND STATE TAX LAW

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. No prediction is made whether such provisions will be enacted as proposed or concerning other future legislation affecting the tax treatment of interest on the Bonds. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the

market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

RATING

The City has not requested a rating on the Bonds.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc., Des Moines, Iowa as Financial Advisor in connection with the preparation of the issuance of the Bonds. In preparing the TERMS OF OFFERING, the Financial Advisor has relied on government officials, and other sources to provide accurate information for disclosure purposes. The Financial Advisor is not obligated to undertake, and has not undertaken, an independent verification of the accuracy, completeness, or fairness of the information contained in the TERMS OF OFFERING. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CUSIP NUMBERS

CUSIP numbers will NOT be requested for the Bonds. However, if the Purchaser requests CUSIP numbers, the Purchaser must agree in the bid to pay the cost thereof. In no event will the City, Bond Counsel or Financial Advisor be responsible for the review or express any opinion that the CUSIP numbers, if and when issued, are correct.

FINANCIAL STATEMENTS

The City’s June 30, 2012 COMPREHENSIVE ANNUAL FINANCIAL REPORT, as prepared by a certified public accountant, is reproduced as APPENDIX B. The City’s certified public accountant has not consented to distribution of the audited financial statement and has not undertaken added review of their presentation. Further information regarding financial performance and copies of the City’s prior Comprehensive Annual Financial Reports may be obtained from the City of Muscatine’s Finance Director.

McGladrey & Pullen, LLP, the City’s independent auditor, has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. McGladrey & Pullen, LLP, also has not performed any procedures relating to this TERMS OF OFFERING.

CLOSING CONDITIONS

At closing, the City will deliver one bond covering the entire issue with an attached schedule. The City will pay for Bond Counsel’s legal opinion and the Financial Advisor’s fee. The City will NOT produce an Official Statement for the Bonds.

It is expected that the Purchaser will hold the Bonds in its own account, not with the intent to resell such to the public. The Purchaser will be required to certify the same to the City and Bond Counsel prior to closing (see APPENDIX E).

QUESTIONS AND INQUIRIES

Additional informational inquiries may be directed to Ms. Nancy A. Lueck, Finance Director, City of Muscatine, 215 Sycamore Street, Muscatine, Iowa 52761, or by telephoning 563-264-1550 (ext. 110).

BY ORDER OF THE CITY COUNCIL
Nancy A. Lueck, Finance Director
City of Muscatine
215 Sycamore Street
Muscatine, IA 52761

SCHEDULE OF BOND YEARS

\$1,115,000*

CITY OF MUSCATINE, IOWA

General Obligation Refunding Bonds, Series 2013

Bonds Dated: March 7, 2013

Interest Due: December 1, 2013 and each June 1 and December 1 to maturity

Principal Due: June 1, 2014-2016

<u>Year</u>	<u>Principal</u> *	<u>Bond Years</u>	<u>Cumulative Bond Years</u>
2014	\$370,000	456.33	456.33
2015	370,000	826.33	1,282.67
2016	375,000	1,212.50	2,495.17

Average Maturity (dated date): 2.238 Years

* Preliminary; subject to change.

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APPENDIX A

CITY INFORMATION

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CITY PROPERTY VALUES

IOWA PROPERTY VALUATIONS

In compliance with Section 441.21 of the Code of Iowa, the State Director of Revenue annually directs the county auditors to apply prescribed statutory percentages to the assessments of certain categories of real property. The 2011 final Actual Values were adjusted by the Muscatine County Auditor. The reduced values, determined after the application of rollback percentages, are the Taxable Values subject to tax levy.

The Legislature's intent has been to limit the growth of statewide taxable valuations for the specific classes of property to 4% annually. Political subdivisions whose taxable values are thus reduced or are unusually low in growth are allowed to appeal the valuations to the State Appeal Board, in order to continue to fund present services.

HISTORICAL ROLLBACK PERCENTAGES

<u>Fiscal Year</u>	<u>Agricultural Land & Buildings</u>	<u>Residential</u>	<u>Commercial & Railroad</u>	<u>Industrial & Utilities</u>
2008-09	90.1023%	44.0803%	99.7312%	100.0000%
2009-10	93.8568%	45.5893%	100.0000%	100.0000%
2010-11	66.2715%	46.9094%	100.0000%	100.0000%
2011-12	69.0152%	48.5299%	100.0000%	100.0000%
2012-13	57.5411%	50.7518%	100.0000%	100.0000%

1/1/2011 VALUATIONS (Taxes payable July 1, 2012 to June 30, 2013)

	<u>100% Actual Value</u>	<u>Taxable Value (With Rollback)</u>
Residential	\$826,440,451	\$418,570,988
Commercial	236,549,608	236,549,608
Industrial	117,483,923	117,483,923
Railroad	628,206	628,206
Utilities w/o Gas & Electric	<u>6,457,240</u>	<u>6,457,240</u>
Gross valuation	\$1,187,559,428	\$779,689,965
Less Military Exemption	<u>(2,002,012)</u>	<u>(2,001,533)²⁾</u>
Net valuation	\$1,185,557,416	\$777,688,432
TIF increment (used to compute debt service levies and constitutional debt limit)	\$23,452,708 ¹⁾	\$23,452,229 ¹⁾²⁾
Taxed separately		
Ag. Land & Buildings	\$1,904,047	\$878,503
Gas & Electric Utilities	\$9,035,150	\$3,755,144

1) Excludes \$511,333 of TIF Increment Ag. Land & Building valuation.

2) Reduced by \$479 of TIF Increment Military Exemption.

Trend of Valuations

Assessment Year	Payable Fiscal Year	<u>100% Actual Valuation</u>		<u>Net Taxable Valuation</u>		<u>Taxable TIF Increment</u>	
		Valuation	% Change	Valuation	% Change	Valuation	% Change
2008	2009-10	\$1,186,521,058	2.11%	\$729,786,340	3.77%	\$21,885,769	14.95%
2009	2010-11	1,193,428,431	0.58%	740,436,638	1.46%	21,620,691	(1.21%)
2010	2011-12	1,213,313,348	1.67%	759,702,874	2.60%	22,447,993	3.83%
2011	2012-13	1,220,460,654	0.59%	781,443,576	2.86%	23,452,229	4.47%
2012 ¹⁾	2013-14	1,227,291,078	0.56%	798,621,557	2.20%	25,669,741	9.46%

1) The City’s 1/1/2012 valuations are now available from the State of Iowa and become effective July 1, 2013.

The 100% Actual Valuations, before rollback and after reduction of military exemption, include Ag. Land & Buildings, TIF Increment and Gas & Electric Utilities. The Taxable Valuations, with the rollback and after the reduction of military exemption, includes Gas & Electric Utilities and exclude Taxable TIF Increments and Ag. Land & Buildings. Iowa counties certify operating levies against Taxable Valuations excluding the Taxable TIF Increment and debt service levies are certified against Taxable Valuations including the Taxable TIF Increment.

2011 GROSS TAXABLE VALUATION BY CLASS OF PROPERTY ¹⁾

	<u>1/1/2011 Taxable Valuation</u>	<u>Percent Total</u>
Residential	\$418,570,988	53.43%
Commercial, Industrial and all Utilities	364,245,915	46.49%
Railroad	<u>628,206</u>	<u>0.08%</u>
Total Gross Taxable Valuation	\$783,445,109	100.00%

1) Includes all Utilities but excludes Taxable TIF Increment and Ag. Land & Buildings.

CITY INDEBTEDNESS

DEBT LIMIT

Article XI, Section 3 of the State of Iowa Constitution limits the amount of debt outstanding at any time of any county, municipality or other political subdivision to no more than 5% of the actual value of all taxable property within the corporate limits, as taken from the last state and county tax list. The debt limit for the City, based on its 2011 valuation currently applicable to the fiscal year 2012-13 is as follows:

2011 Actual Valuation of Property	\$1,222,462,666
Less: Military Exemption	<u>(2,002,012)</u>
Subtotal	\$1,220,460,654
Legal Debt Limit of 5%	<u>0.05</u>
Legal Debt Limit	\$61,023,033
Less: G.O. Debt Subject to Debt Limit	(18,725,000) *
Less: Urban Renewal Revenue Debt Subject to Debt Limit	(1,140,000)
Less: Developer Rebate Agreements	<u>(12,135,810)</u>
Net Debt Limit	\$29,022,223 *

DIRECT DEBT

General Obligation Debt Paid by Taxes, Landfill and Refuse (Includes the Bonds)

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding As of 3/7/13</u>
6/06	\$2,990,000	Public Improvements	6/13	\$340,000 ¹⁾
6/08A	5,120,000	Public Improvements	6/18	3,760,000
5/08B	6,560,800	Refunding	6/14	1,575,000
6/10	5,890,000	Public Improvements	6/20	5,765,000
6/12	4,715,000	Improvements & Refunding	6/22	4,715,000
3/13	1,115,000 *	Improvements & Refunding	6/16	<u>1,115,000</u> *
Total General Obligation Debt Subject to Debt Limit:				\$17,270,000 *

1) The 2014-2016 maturities will be refunded by the Bonds on June 1, 2013.

General Obligation Debt Paid by Tax Increment Revenue

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding As of 3/7/13</u>
6/10	\$1,535,000	Public Improvements	6/20	\$1,455,000
Total General Obligation Debt Subject to Limit				\$18,725,000 *

* Preliminary; subject to change.

Urban Renewal Revenue Bonds Paid by Tax Increment Revenue

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding As of 3/7/13</u>
6/04	\$1,885,000	TIF Revenue	6/21	\$1,140,000
Total Urban Renewal Revenue Debt Subject to Limit				\$1,140,000

Annual Fiscal Year Debt Service Payments

General Obligation Debt Paid by Taxes, Landfill and Refuse (Includes the Bonds)

<u>Fiscal Year</u>	<u>Current Outstanding Debt</u>		<u>The Bonds</u>		<u>Total Outstanding</u>	
	<u>Principal</u>	<u>Principal & Interest</u>	<u>Principal *</u>	<u>Principal & Interest *</u>	<u>Principal *</u>	<u>Principal & Interest *</u>
2012-13	\$2,140,000	\$2,369,690	\$0	\$0	\$2,140,000	\$2,369,690
2013-14	1,845,000	2,198,783	370,000	378,989	2,215,000	2,577,772
2014-15	1,740,000	2,044,268	370,000	375,439	2,110,000	2,419,707
2015-16	1,830,000	2,092,373	<u>375,000</u>	377,738	2,205,000	2,470,111
2016-17	2,050,000	2,263,598			2,050,000	2,263,598
2017-18	2,105,000	2,264,738			2,105,000	2,264,738
2018-19	1,650,000	1,753,523			1,650,000	1,753,523
2019-20	1,645,000	1,708,098			1,645,000	1,708,098
2020-21	570,000	590,710			570,000	590,710
2021-22	<u>580,000</u>	591,020			<u>580,000</u>	591,020
	\$16,155,000		\$1,115,000 *		\$17,270,000 *	

* Preliminary; subject to change.

General Obligation Debt Paid by Tax Increment Revenue

<u>Fiscal Year</u>	<u>Current Outstanding Debt</u>	
	<u>Principal</u>	<u>Principal & Interest</u>
2012-13	\$170,000	\$189,813
2013-14	170,000	206,225
2014-15	175,000	207,825
2015-16	180,000	208,450
2016-17	180,000	203,050
2017-18	185,000	202,650
2018-19	195,000	207,100
2019-20	<u>200,000</u>	206,250
	\$1,455,000	

Urban Renewal Revenue Debt Paid by Tax Increment Revenue

Fiscal Year	Current Outstanding Debt	
	Principal	Principal & Interest
2012-13	\$105,000	\$135,653
2013-14	110,000	166,320
2014-15	115,000	165,930
2015-16	120,000	165,065
2016-17	125,000	163,705
2017-18	130,000	161,955
2018-19	140,000	164,805
2019-20	145,000	161,965
2020-21	<u>150,000</u>	158,700
	\$1,140,000	

REVENUE DEBT

The City has revenue debt outstanding payable solely from the net revenues of the sewer utility as follows:

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding As of 3/7/13</u>
11/08	\$16,500,000	Sewer Improvements (SRF)	6/32	\$15,433,000

OVERLAPPING DEBT

<u>Taxing District</u>	<u>1/1/2011 Taxable Valuation ¹⁾</u>	<u>Valuation within the City</u>	<u>Percent In City</u>	<u>G. O. Debt ²⁾</u>	<u>City's Proportionate Share</u>
Muscatine County	\$1,784,245,482	\$805,774,308	45.16%	\$9,695,000	\$4,378,262
Muscatine CSD	1,198,423,692	782,236,177	65.27%	0	0
Louisa-Muscatine CSD	245,719,823	23,538,131	9.58%	0	0
Eastern Iowa Comm. College	13,003,249,073	805,774,308	6.20%	66,275,000	<u>4,109,050</u>
City's share of total overlapping debt					\$8,487,312

1) Includes Ag. Land, Ag. Buildings, all Utilities and Taxable TIF Increment.

2) Includes general obligation bonds, PPEL notes, certificates of participation and new jobs training certificates.

FINANCIAL SUMMARY

Debt Ratios

	G.O. Debt	Debt/Actual Market Value (\$1,220,460,654) ¹⁾	Debt/Taxable Value (\$805,774,308) ²⁾	Debt Per Capita (22,886) ³⁾
City Total G. O. Debt *	\$18,725,000	1.53%	2.32%	\$818.19
City Total TIF Revenue Debt	1,140,000	0.09%	0.14%	49.81
City's Share of Overlapping Debt	<u>8,487,312</u>	<u>0.70%</u>	<u>1.05%</u>	<u>370.85</u>
City's Net Overall Debt *	\$28,352,312	2.32%	3.51%	\$1,238.85

1) Based on the City's 1/1/2011 Actual Valuation including Ag. Land & Buildings, Taxable TIF Increment and all Utilities.

2) Based on the City's 1/1/2011 Taxable Valuation including Ag. Land & Buildings, Taxable TIF Increment and all Utilities.

3) Population based on the City's 2010 U.S. Census.

* Preliminary; subject to change.

Valuation Per Capita

	1/1/2011 Valuation	Valuation Per Capita (22,886) ³⁾
100% Actual Valuation	\$1,220,460,654 ¹⁾	\$53,328
Taxable Valuation	805,774,308 ²⁾	35,208

1) Based on the City's 1/1/2011 Actual Valuation including Ag. Land & Ag. Buildings, Taxable TIF Increment and all Utilities.

2) Based on the City's 1/1/2011 Taxable Valuation including Ag. Land & Ag. Buildings, Taxable TIF Increment and all Utilities.

3) Population based on the City's 2010 U.S. Census.

TAX RATES

	FY 2008/09 \$/\$1,000	FY 2009/10 \$/\$1,000	FY 2010/11 \$/\$1,000	FY 2011/12 \$/\$1,000	FY 2012/13 \$/\$1,000
City of Muscatine	16.15095	15.55353	15.77147	15.77146	15.67209
Muscatine County	7.59332	7.84326	8.18240	8.00950	7.73335
County Assessor	0.29386	0.31638	0.35363	0.33767	0.33455
Ag Extension	0.14486	0.14331	0.14589	0.14582	0.13969
Muscatine CSD	14.86671	14.90569	14.90920	15.36192	15.35345
Louisa-Muscatine CSD	15.03328	13.78199	14.08973	13.78625	11.97595
Eastern Iowa Comm. College	0.60635	0.87714	0.92444	1.01724	0.91511
State of Iowa	<u>0.00350</u>	<u>0.00300</u>	<u>0.00340</u>	<u>0.00320</u>	<u>0.00330</u>
Consolidated Tax Rate:					
Muscatine CSD Resident	39.65955	39.64231	40.29043	40.64681	40.15154
Consolidated Tax Rate:					
Louisa-Muscatine CSD Resident	39.82612	38.51861	39.47096	39.07114	36.77407

LEVY LIMITS

A city's general fund tax levy is limited to \$8.10 per \$1,000 of taxable value, with provision for an additional \$0.27 per \$1,000 levy for an emergency fund which can be used for general fund purposes (Code of Iowa, Chapter 384, Division I). Cities may exceed the \$8.10 limitation upon authorization by a special levy election. Further, there are limited special purpose levies, which may be certified outside of the above-described levy limits (Code of Iowa, Section 384.12). The amount of the City's general fund levy subject to the \$8.10 limitation is \$8.10 for FY 2012-13. The City does levy for operation and maintenance of public transit; levee improvements; liability, property and self insurance costs; police and fire retirement; Federal Insurance Contributions Act and Iowa Public Employees Retirement System; and other employee benefits in addition to the \$8.10 general fund limit as authorized by law. Currently, the City does not levy for an emergency fund. Debt service levies are not limited.

FUNDS ON HAND (CASH AND INVESTMENTS AS OF NOVEMBER 30, 2012)

<u>Account</u>	<u>Balance</u>	
General	\$3,252,708.47	
Debt Service	1,294,229.64	
Insurance Reserve	60,542.01	
Parks Trust	54,464.25	
Cemetery Perpetual Care	847,964.06	
Cemetery Trusts	68,394.06	
Library Trusts	220,110.64	
Art Center Trusts	471,522.63	
<u>Capital Project Funds</u>		
Cedar Street Improvements	102,081.06	
Colorado Street Improvements	781,243.45	
Hershey Street Improvements	129,360.12	
Mississippi Drive Corridor Study	28,136.88	
Other Street Projects	116,889.24	
Water Pollution Control Projects:		
Plant Facilities Upgrade Project	254,303.33	
Sewer Improvement Projects	40,011.71	
Sewer Extindion – Voluntary Annexation	357,675.11	
Trail Projects	44,006.07	
FEMA Projects	(56,555.54)	2) 3)
Parks Project Balances	(5,144.86)	3)
Southend Fire Station Project	81,870.56	
City Building Boiler Replacements	(110,183.89)	2) 3)
Mad Creek Levee Improvements	(223,631.03)	4)
Police Radio System	52,697.03	
Airport Improvement Projects	(16,327.96)	1) 2)
Other Capital Projects	(60,501.64)	1) 2) 3)
<u>Enterprise Funds:</u>		
Transit	(39,378.08)	4)
Parking	88,922.84	
Golf	131,990.30	
Boat Harbor	2,953.94	
Marina	(5,492.56)	4)
Refuse Collection	154,899.19	
Landfill (Solid Waste Agency)	(1,214,758.76)	4)
Landfill Reserves	1,252,819.00	
Transfer Station	(598,079.23)	4)

<u>Account</u>	<u>Balance</u>
Transfer Station Reserve	38,645.00
Water Pollution Control Operations	1,505,839.81
Collection and Drainage	977,934.85
Sewer Reserves	4,582,685.73
Airport Operations	10,672.97
Ambulance	221,839.70
<u>Internal Services Funds:</u>	
Equipment Services	68,469.23
Central Supplies	(2,105.06) ⁴⁾
Health Insurance	1,814,767.52
Dental Insurance	21,421.04
Various Clearing Accounts	678,182.58
<u>Special Revenue Funds:</u>	
Close CDBG Grant Funds	42,640.14
Housing Home Ownership Program	149,305.32
Housing Children's Education Program	11,484.45
Road Use Tax	276,041.33
Employee Benefits	299,121.60
Emergency Tax Levy Fund	80,301.16
Computer/Equipment Replacement Funds	124,320.20
Local Option Sales Tax	1,861,248.74
Tax Increment Funds	1,395,689.82
Public Housing	157,375.04
Section 8 Housing	115,735.04
<u>Agency Funds:</u>	
Convention & Visitors Bureau (Interim)	<u>67,279.20</u>
 Total - All Funds	 \$22,058,637.45

- 1) Deficits to be eliminated through bond proceeds.
- 2) Deficits to be eliminated through grants.
- 3) Deficits to be eliminated through transfers.
- 4) Deficits to be eliminated through future tax receipts and user charges.

APPENDIX B

FORM OF LEGAL OPINION

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***(Form of Bond Counsel Opinion)**

We hereby certify that we have examined certified copies of the proceedings (the "Proceedings") of the City Council of the City of Muscatine (the "Issuer"), in Muscatine County, Iowa, passed preliminary to the issue by the Issuer of its General Obligation Refunding Bonds Series 2013 (the "Bonds") in the principal amount of \$1,115,000. The Bonds are being initially issued as a single term bond, dated March 7, 2013 in evidence of the Issuer's obligation under a certain loan agreement (the "Loan Agreement"), dated March 7, 2013. Principal of the Bonds matures on June 1 in each of the respective years and in the principal amounts and bears interest payable semiannually, at the times and at the respective rates all as set forth in the Proceedings and the Bonds. The Bonds are subject to optional redemption prior to maturity in any amount at any time on terms of par plus accrued interest.

We have examined the law, the Proceedings and such other papers as we deem necessary to render this opinion as bond counsel. As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the resolution authorizing the Loan Agreement and issuance of the Bonds and in the Proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination and in reliance upon the Proceedings and other certifications described above, we are of the opinion, under existing law, as follows:

1. The Proceedings show lawful authority for such issue under the laws of the State of Iowa.
2. The Bonds and the Loan Agreement are valid and binding general obligations of the Issuer.
3. All taxable property within the corporate boundaries of the Issuer is subject to the levy of taxes to pay the principal of and interest on the Bonds without constitutional or statutory limitation as to rate or amount.
4. The interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

5. The Bonds are “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the Bonds be, or continue to be, qualified tax-exempt obligations. The Issuer has covenanted to comply with each such requirement.

We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

DORSEY & WHITNEY LLP

***This form of bond counsel opinion is subject to change pending the results of the sale of the Bonds contemplated herein.**

APPENDIX C

OFFICIAL BID FORM

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OFFICIAL BID FORM

To: City Council of
Muscatine, Iowa

Sale Date: February 7, 2013
10:00 AM, Central Time

RE: \$1,115,000* General Obligation Refunding Bonds, Series 2013 (the "Bonds")

For all or none of the Bonds, in accordance with the TERMS OF OFFERING, we will pay you \$ _____ (not less than \$1,115,000) for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

<u>Coupon</u>	<u>Maturity</u>
_____	2014
_____	2015
_____	2016

*Preliminary; subject to change. The City reserves the right to increase or decrease the aggregate principal amount of the Bonds by such amount as may be necessary to implement the refunding of the Series 2006 Bonds. Such change will be in increments of \$5,000. The purchase price will be adjusted proportionately to reflect any change in issue size.

In making this offer we accept all of the terms and conditions of the TERMS OF OFFERING dated January __, 2013. In the event of failure to deliver the Bonds in accordance with the TERMS OF OFFERING and made a part hereof, we reserve the right to withdraw our offer, whereupon the deposit accompanying it will be immediately returned. All blank spaces of this offer are intentional and are not to be construed as an omission.

Not as a part of our offer, the above quoted prices being controlling, but only as an aid for the verification of the offer, we have made the following computations:

NET INTEREST COST: \$ _____

TRUE INTEREST COST: _____% (Calculated to the dated date of March 7, 2013)

Please check your registration preference below;

- Book-entry-only form (Registered through DTC).
- Physical bond delivered at closing.

Account Manager: _____ By: _____

Account Members:

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Muscatine, Iowa this 7th day of February, 2013.

Attest: _____ By: _____

Title: _____ Title: _____

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