

MEMORANDUM

TO: Ken Beck, Chair of the Scott County Board of Supervisors
David Farmer, Director of Budget and Administrative Services
Kerri Tompkins, Scott County Auditor

FROM: Courtney A. Strutt Todd and Shannon M.H. Hasse

DATE: February 27, 2024

RE: St. Joan of Arc School Bonds

REQUEST

Our Lady of Lourdes Church of Bettendorf, Iowa and St. John Vianney Church of Bettendorf, Iowa (together, the “Borrowers”) both of which are wholly-owned 501(c)(3) organizations for the Diocese of Davenport, are planning to jointly borrow funds to build the St. Joan of Arc School (the “School”) and are requesting that Scott County issue its revenue bonds under Chapter 419 in an amount up to \$10 million (or the amount of capacity you have available up to \$10 million) in order to assist in financing the School (as described below) and designate the bonds as qualified tax-exempt obligations.

ST. JOAN OF ARC SCHOOL PROJECT

Proceeds of the Bonds will be used to finance the construction, improving and equipping of (i) a 79,990 square foot co-educational, regional Catholic grade school known as the St. Joan of Arc School located on land located on the Northwest corner of Hopewell Avenue and Criswell Street in Bettendorf, Iowa (together the “Project”). The School would have a capacity to enroll up to 630 students including 590 students in ages 3-year-old preschool through 8th grade with additional Facilities for 40 infants and toddlers (birth-age 3) and extended care facilities for after school programs which would

enroll approximately 180 students. Proceeds of the Bonds will also be used to fund capitalized interest on the Bonds and pay costs of issuance. The total cost of the Project is approximately \$44 million. A rendering, site plan, and additional details can be found in Exhibit A attached hereto.

BACKGROUND

One of the most commonly used and successful economic development tools available in Iowa is the ability of local governments to issue industrial development bonds under Chapter 419 of the Code of Iowa. Chapter 419 permits municipalities (including cities and counties) to issue revenue bonds “for the purpose of defraying the cost of any project and to secure payment of such bonds as provided in [Chapter 419].”

Revenue bonds issued under Chapter 419 are commonly referred to as conduit bonds because the issuer of the bonds loans the proceeds of the bonds to a nongovernmental entity to be used for a permissible project and then assigns the loan agreement and the loan repayment obligations of the nongovernmental entity to the purchaser(s) of the bonds or a trustee for the purchaser(s). The loan repayment obligation is equal to the required debt service on the bonds and after the issuer assigns the loan agreement and the loan repayment obligations to the bondholders or trustee, the issuer has no further responsibility for repayment of the bonds.

For certain types of projects the Internal Revenue Code treats the interest on conduit bonds as exempt from federal income tax, thus permitting the nongovernmental entity to borrow at a lower cost than would otherwise be the case.

Chapter 419 provides that any of the following projects may be financed with revenue bonds:

a. Land, buildings, or improvements, whether or not in existence at the time of issuance of the bonds issued under this chapter, which are suitable for the use of any of the following:

(1) A voluntary nonprofit hospital, clinic, or health care facility as defined in section 135C.1, subsection 6.

(2) One or more physicians for an office building to be used exclusively by professional health care providers, including appropriate ancillary facilities.

(3) A private college or university or a state institution governed under chapter 262 whether for the establishment or maintenance of the college or university or state institution.

(4) An industry or industries for the manufacturing, processing, or assembling of agricultural or manufactured products, even though the processed products may require further treatment before delivery to the ultimate consumer.

(5) A commercial enterprise engaged in storing, warehousing, or distributing products of agriculture, mining, or industry including but not limited to barge facilities and riverfront improvements useful and convenient for the handling and storage of goods and products.

(6) A facility for the generation of electrical energy through the use of a renewable energy source including but not limited to hydroelectric and wind generation facilities.

(7) A facility engaged in research and development activities.

(8) A national, regional, or divisional headquarters facility of a company that does multistate business.

(9) A museum, library, or tourist information center.

(10) A telephone company.

(11) A beginning businessperson for any purpose.

(12) A commercial amusement or theme park.

(13) A housing unit or complex for persons who are elderly or persons with disabilities.

(14) A fair or exposition held in the state, other than the Iowa state fair, which is a member of the association of Iowa fairs.

(15) A sports facility.

(16) A facility for an organization described in section 501(c)(3) of the Internal Revenue Code which is exempt from federal income tax under section 501(a) of the Internal Revenue Code.

Section 419.2 provides that a municipality has the power to issue bonds for projects located within or near the municipality but shall not be located more than eight miles outside the corporate limits of the municipality. The School is located within Bettendorf, Iowa, and within the eight mile radius of the corporate limits of Scott County.

Section 419.3 provides as follows with respect to the liability of the municipality issuing bonds under Chapter 419:

All bonds issued by a municipality, under the authority of this chapter, shall be limited obligations of the municipality. The principal of and interest on such bonds shall be payable solely out of the revenues derived from the project to be financed by the bonds so issued under the provisions of this chapter including debt obligations of the lessee or contracting party obtained from or in connection with the financing of a project. Bonds and interest coupons issued under authority of this chapter shall never constitute an indebtedness of the municipality, within the meaning of any state constitutional provision or statutory limitation, and shall not constitute nor give rise to a pecuniary liability of the municipality or a charge against its general credit or taxing powers.

Thus, bonds issued under Chapter 419 (1) are not a general obligation of the issuer but are payable solely from the payments to be made by the borrower of the proceeds of the bonds, and (2) do not count against the debt capacity of the issuer.

In addition, Section 419.4 provides as follows with respect to the security for bonds issued under Chapter 419:

The principal of and interest on any bonds, issued under authority of this chapter, shall be secured by a pledge of the revenues out of which such bonds shall be made payable. They may be secured by a mortgage covering all or any part of the project from which the revenues so pledged may be derived or by a pledge of the lease, sale contract or loan agreement with respect to such project or by a pledge of one or more notes, debentures, bonds or other secured or unsecured debt obligations of the lessee or contracting party.

PROCEDURE

Under Chapter 419, an issuer is required to conduct a public hearing on a proposal to issue bonds prior to the issuance of the bonds. The normal procedure is that the governing body adopts a resolution calling a public hearing, setting the date for the hearing and directing that notice of the hearing be published. There are also similar requirements under the Internal Revenue Code under Section 147(f) for the public hearing in order to make sure that the bonds are tax-exempt. Notice of intention to issue the bonds, specifying the amount and purpose thereof and the time and place of the hearing must be published at least once not less than fifteen days prior to the date

fixed for the hearing in a newspaper published and having a general circulation within the municipality. At the time and place fixed for the public hearing the governing body is required to give all local residents who appear at the hearing an opportunity to express their views for or against the proposal to issue the bonds. The governing body then adopts a resolution determining whether or not to proceed with the issuance of the bonds. Either at that meeting or a subsequent meeting the governing body adopts a resolution authorizing the issuance of the bonds and execution of the various documents required in connection with the issuance of the bonds. Sale of the bonds and negotiation of the terms of the bonds with the bond purchaser are the responsibility of the borrower. The preparation of the resolutions for adoption by the governing body as well as the other documents required for issuance of the bonds is the responsibility of bond counsel. After the closing of the bonds the issuer has completed its involvement and typically has no more connection to the issue. All continuing obligations with respect to the bonds are the borrowers.

BANK QUALIFIED BONDS

Under the Internal Revenue Code, banks may generally not deduct the interest expense incurred to purchase tax-exempt municipal bonds. For banks, this provision has the effect of eliminating the tax-exempt benefit of municipal bonds. The rate they would require in order for the investment to be profitable would approach the rate of taxable bonds. An exception is included in the Internal Revenue Code that allows banks to deduct 80% of the interest expense incurred to purchase tax-exempt bonds if the obligation is a “qualified tax-exempt obligation.” In order for bonds to be qualified tax-exempt obligations, also known as bank qualified, the bonds must be (1) issued by a “qualified small issuer,” (2) issued for public purposes, and (3) designated as qualified tax-exempt obligations. A “qualified small issuer” is an issuer that issues no more than \$10 million of tax-exempt bonds during the calendar year. Public purposes include both governmental projects and projects for organizations described in section 501(c)(3) of the Internal Revenue Code. Having a bank qualified bond also permits the borrower to privately place tax-exempt bonds with a bank.

Exhibit A St. Joan of Arc – Rendering, Site Plan & Introduction



Under the St. Joan of Arc name, a new 79,990 sq. ft. is being developed as a new, modern facility offering parents a new a source of education that is built on a strong foundation of Catholic faith and values while providing students the best possible environment in which to learn and grow:

- State-of-the-art classrooms - two each for grades K-8 will be housed within a two-story, accessible building designed for safety, collaborative learning, and future growth. The school feeds into the local Catholic high school, Assumption High, in Davenport, IA.
- State-of-the-art classrooms, current technology, and other educational and activity spaces will enhance the learning experience for students, providing them the best possible environment in which to learn and grow. Truly a “School for the Future.”
- A dedicated STEM Lab, a fully equipped Science Lab, an Art Room, a Music Room, and a Performance Stage will provide a wide range of opportunities for students to explore, seek, and achieve their full potential.
- Curriculum support spaces for small groups and collaboration, including Collaboration Spaces, Learning Stairs, and an 8,000 sq. ft. Outdoor Learning Area, will help ensure students are well equipped to meet the challenges of the future and succeed in life.
- A high-school-sized gymnasium with bleacher seating for 360 will provide students and the community ample space for physical activity during the school day, extracurricular sports, and a variety of school and parish events.
- Curriculum support spaces for STEM, the arts, and small groups and collaboration will help ensure students are well equipped to meet the challenges of the future and succeed in life.
- A conference room and offices for the principal, counselor, and school nurse will be together in a separate administrative area with a reception lobby and secure entry.
- A combined chapel/commons area with a kitchen will provide both ample cafeteria space and room to accommodate all school masses and other large group events.
- A separate wing, with a separate secure entrance, will provide Infant and Toddler care, a Nap Room, Early Childhood Learning, and four pre-K classrooms – two each for 3-year-olds and 4-year-olds. This wing will provide a desperately needed resource for young families.
- Before school and after school “Wrap Around” care will be available.