

# DOUGHERTY & COMPANY LLC

April 13, 2015

**VIA EMAIL**

Joel Landeen  
City Attorney  
City of Rapid City  
[joel.landeen@rcgov.org](mailto:joel.landeen@rcgov.org)

Dear Joel,

This letter is in response to your request for our comments regarding the possible separation of the CIP and Vision Accounts back to separate funds. As a general comment, we would point out that to the best of our knowledge no other city in South Dakota separates their second penny sales tax into more than one fund. Most cities but not all separate their two percent general sales tax revenues into two funds, one percent (1<sup>st</sup> penny) for the general fund and the additional one percent (2<sup>nd</sup> penny) for other purposes generally related to capital type projects.

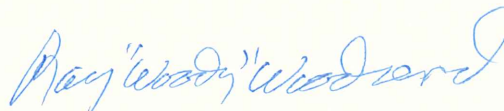
The City's last rating of the general sales tax was in 2013 when Moody's assigned the Utility Facility Fund bonds Aa3 and upgraded the outstanding Consolidated Construction Fund (CIP) bonds to Aa3 along with the outstanding Vision Fund bonds and the "issuer rating" or general obligation rating. Prior to this all of these had previously been rated A1. They referenced the broad base of the sales tax, solid debt service coverage levels, and stable revenues. They made note of the fact that based on then current revenues that the Consolidated Construction Fund(CIP) and Vision Fund bonds had debt service coverage of 13.1x and 2.5x respectively. We believe the above were important considerations to the upgrade in the rating and will be important to maintaining a similar rating in the future and will be easier to maintain with one fund.

The main reason for maintaining one fund with separate accounts is that it provides the City with the most flexibility and potentially could lessen borrowing costs for any project(s) payable from either CIP and/or Vision expenditures. At the same time, the separate accountability can be maintained just as well, whether they are separate accounts within a fund or separate funds. Potential costs savings are mainly from lower interest costs due to maintaining the current Aa3 or a better rating. Savings may also be obtained because of investors' perceptions of future financing(s) and in some cases it may allow the City to shorten the maturity schedule while maintaining a higher debt service coverage ratio.

Sincerely,



Thomas J. Grimmond  
Senior Vice President  
Dougherty & Company LLC



Ray E. Woodsend  
Senior Vice President  
Dougherty & Company LLC

cc: Pauline Sumption