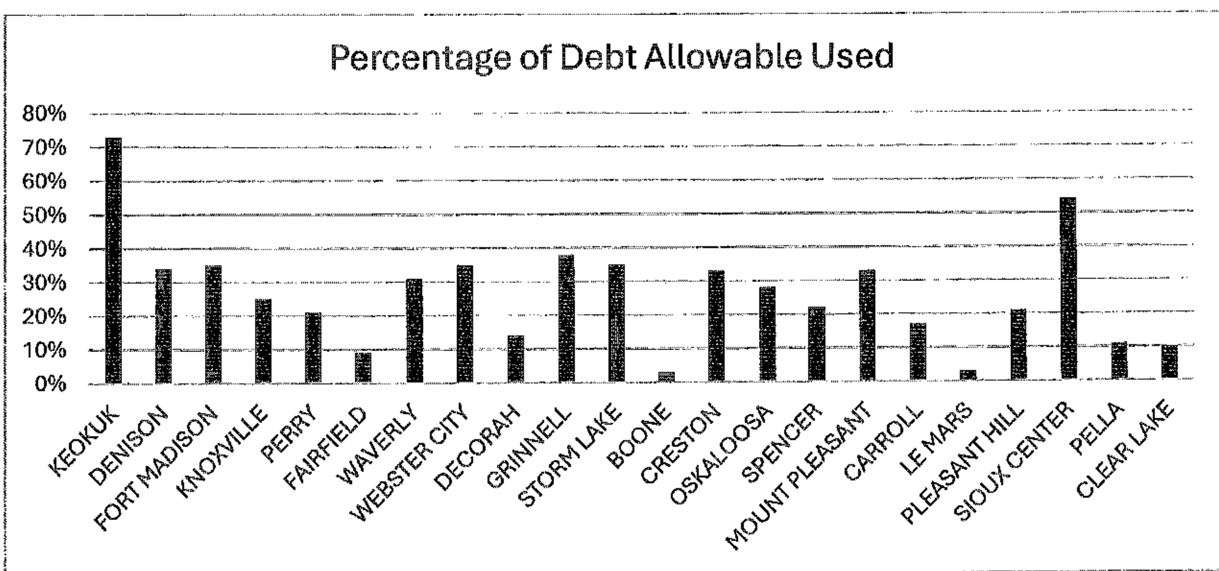
Debt Service Fund

In the State of Iowa, cities use a Debt Service Fund to manage principal and interest payments for long-term general obligation debt like bonds or lease-purchase agreements, funded primarily by dedicated property taxes (levies) but also by other revenues, ensuring specific funds are set aside for repaying debt obligations. For Keokuk, the majority of the funding for debt payments has come from Tax Increment Fund (TIF) revenues as well as one of the major portions of the overall property tax levy specifically for debt service payments. Keokuk has funded four of its debt issuances at least partially with TIF funds while 8 of its debts have been paid for with property taxes (the debt service levy).

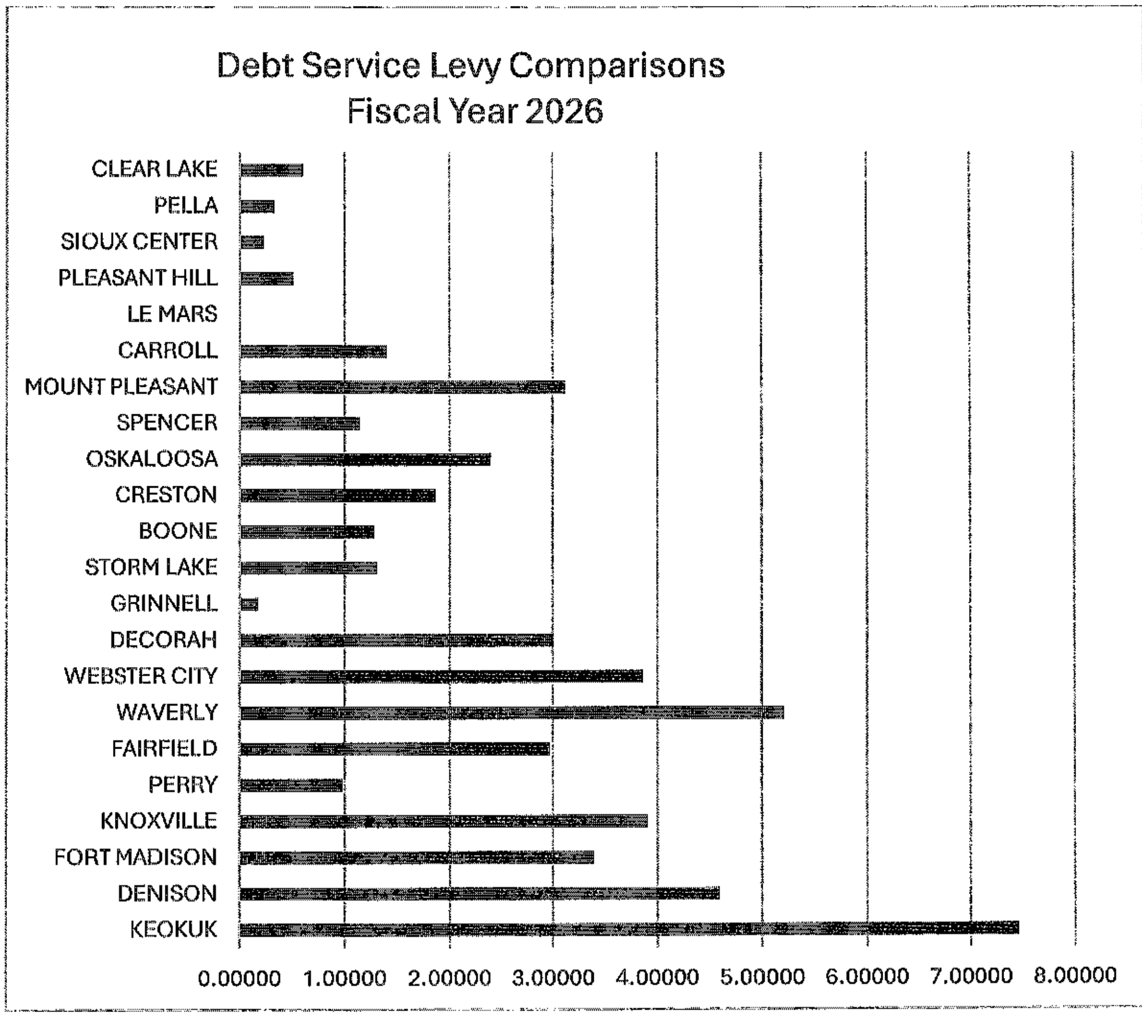
Our overall debt entering Fiscal Year 2026 was $28,000,000, which equates to approximately 73% of our debt capacity. Every community has a state-mandated cap on how much debt it is allowed to have, set by state code at 5% of our total community population. The formula for the maximum debt we can have is approximately $38,000,000, which means that our current debt of $28,000,000 is about 73% of the maximum debt we can have. This does mean that we have the ability to borrow more if necessary, approximately $10,000,000. The main concern is the need to maintain flexibility to handle any emergencies that may arise that necessitate an immediate borrowing, such as responding to financial needs arising from a disaster. There is also an affordability standard – just because you have the ability to borrow does not mean that you should, or that you can realistically afford the debt.

A comparison of how much debt other communities have demonstrates where we stand. The following graph demonstrates how our overall General Obligation debt total compares to other communities our size:



Keokuk has over twice the debt of the average community our size, communities in the range of 7,500 to 12,500 people, in Iowa. The majority of communities in the state have determined not to be so dependent on debt, and it is recommended to not be as leveraged as we currently are. At a minimum, the debt usage should stay under 70% of our overall debt allowed to maintain long-term financial health.

A second comparison of similar sized communities shows a second area where Keokuk is out of alignment with what other communities do in terms of debt, which is the usage of the property tax levy. Keokuk currently has a debt service levy of $7.46 per $1,000 of taxable valuation. The following table demonstrates how this compares with similar sized communities:



The average community has a Debt Service Levy of around $2.26 compared to our $7.46 levy. A short term goal for Keokuk in regards to debt service is not to get to where our levy is at the average, but it certainly is to see our levy get in the range of what other communities are doing; reducing this levy to $3.00 over the next couple of years would be an excellent goal.

We have already taken steps to attempt to achieve this, with a sewer rate increase that is designed to get debt associated with sewer projects, currently paid for with the debt service levy, paid for with sewer revenues. Keokuk is implementing a series of residential sewer rate increases over the next couple of years to try to get that fund to cover its own debt. This won't happen all at once, but will over the next two budget cycles.

The structure of Keokuk's debt is an issue as well. The majority of debt issues should be structured to be paid off in 10 years with level debt payments (though some facility projects can be justified to be over 20-40 years, similar to a home mortgage). Keokuk has twice borrowed money where only interest is paid for the first decade. This is considered backloading debt, and takes decades to overcome. This is an issue that needs to be slowly adjusted over the next 20 years.

Keokuk needs to continue to borrow money for projects as time goes on. The money that is borrowed, however, will need to be on a more gradual basis than in the past, and also needs to be structured in a way that allows us as a community to overcome previous debt issues that were poorly structured.

Next: Fiscal Year 2026 budget shortfalls