

City of Breezy Point, Minnesota-Preliminary Bond Runs-for Financing of City Hall

Updated Analysis for September 3, 2024, City Council Discussion

Dated: August 30, 2024

The City Council has been exploring renovation and/or new construction for potential City Hall expansion and has accepted a bid on City Hall for an amount not to exceed \$2.95 million. There have been continued discussions on the level of bonding versus cash financing for the project. 3 scenarios were presented at the August 5 City Council meeting:

- Option 1: Bond Financing of \$3,030,000 and Cash Financing of \$0
- Option 2: Bond Financing of \$2,575,000 and Cash Financing of \$450,000
- Option 3: Bond Financing of \$2,065,000 and Cash Financing of \$950,000

For purposes of providing preliminary financial analysis as related to City financing for the project and for discussion, we provided bond structures for the above options to also include financing for the ladder truck (debt service to be paid separately via Pequot Lakes Fire District and not as a City levy)

The following assumptions were utilized to prepare the 3 bonding options:

- Dated: 12/19/2024
- Interest Payments: June 15 and December 15
- First Interest: December 15, 2025
- First Principal: December 15, 2026
- Call Date: December 1, 2034
- 15-Year amortization with level debt service
- Current AA/GO/Bank Qualified Rates +45 bps
- Project Deposit
 - Capital Improvement: \$2,950,000
 - Equipment (Ladder Truck:): \$1,409,470

Summary of Funding Scenarios

Debt Summary	Option 1	Option 2	Option 3
Par Amount	3,030,000	2,575,000	2,065,000
Cash	-	450,000	950,000
Total Sources	3,030,000	3,025,000	3,015,000
Deposit to Construction Fund	2,950,000	2,950,000	2,950,000
COI	80,000	75,000	65,000
Total Uses	3,030,000	3,025,000	3,015,000
Average Annual DS (with 105% overlevy)	280,000	238,000	190,000
Fire Truck	132,000	132,000	132,000
Total DS	412,000	370,000	322,000

Alternate Scenarios

Comparison of Issuing in December 2024 versus March 2025

Scenario 1: Dated 12/19/2024

- First Interest: 12/15/2025
- Principal: 12/15/2026-12/15/2040
- Call Date: 12/1/2034
- Project Deposit:
 - Capital Improvement: \$2,950,000
 - Equipment: \$1,409,470
- Rates: Current BQ AA Rates +45 bps

Scenario 2: Dated 3/27/2025

- First Interest: 12/15/2025
- Principal: 12/15/2026-12/15/2040
- Call Date: 12/1/2034
- Project Deposit:
 - Capital Improvement: \$2,950,000
 - Equipment: \$1,409,470
- Rates: Current BQ AA Rates +45 bps

Should the City choose to issue bonds in December of 2024, the rates would have to be around 10 basis points less to achieve similar total principal and interest payments of \$6,017,548.33 over the term of the bonds. Current rates plus future interest rate cushioning that would be added to an anticipated March 2025 issuance to result in similar total principal and interest payments of \$6,017,935.76.

Hypothetical Future Refunding Scenario

Assumptions:

Dated: 12/15/2034 (Call Date of 2024A Bonds – original issue)

Principal Refunding: 12/1/2035-12/1/2040

For this hypothetical refunding scenario to be feasible, rates would have to decrease around 150 bps to see above a 3% savings which is an industry standard. This is in part due to the size of refunding and maturity. This is just a hypothetical scenario to understand sensitivity of future interest rates.

Bonding versus Cash Payments

There have been discussions on financing a portion of the project costs for City Hall with cash versus bonds and is based on a variety of factors including type of project being financed, availability of funds, bonding authority and future capital needs. City staff has estimated available cash and investment funds, as well as future capital needs of the City. Another consideration is the City's fund balance policy (45%). The City started the year with 52.48% fund balance, exceeding current policy, which will likely result in additional funds that could be transferred to the Capital Fund at the end of the year.