

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

Updated Analysis for August 1, 2023 City Council Workshop

Dated: August 1, 2023

The City has been exploring renovation and/or new construction for potential City Hall expansion and initially provided four different scenarios with preliminary cost estimates for each as summarized below:

- Option 1: Renovation with cost of \$984,710.30 – round to \$1.0 million
- Option 2: Renovation plus with cost of \$1,946,691.36 – round to \$2.0 million
- Option 3: New building construction \$2,9152,244.80 – round to \$2.9 million
- Option 4: New building construction plus \$3,716,679.60 – round to \$3.7 million

For purposes of providing preliminary financial analysis as related to City financing for the improvements and for discussion at the May 16 City Council workshop, we provided two sets of structures and estimated property tax impacts for the City to consider based on:

- 1) Option 1: \$1.0 million Relating to Maintenance Only
- 2) Option 4: \$3.7 million for a new City hall + library and community room.

Following initial discussions with City Council on May 16, Council provided staff direction to focus on Options 2 and 4.

For purposes of providing updated analysis as related to Options 2 and 4, we have used the following assumptions:

- Dated: 6/1/2024
- Interest Payments: June 15 and December 15
- First Interest: June 15, 2025
- First Principal: December 15, 2025
- 15-Year amortization with level debt service
- Current AA/GO/Bank Qualified Rates +100 bps

As requested for purposes of the discussion, we are providing updated debt financing structures based on the following assumptions:

- 1) Annual City levy of \$230,000 available to pay debt service on new bonds
  - a. Levy maintained from previous GO bond
  - b. Since 2022 annual levy has been transferred to Capital Fund
  - c. May be redirected to finance city hall project
- 2) Annual City levy of \$342,000 for future street improvements
  - a. Remaining in capital projects fund
  - b. May be redirected to finance Buschmann Road project

City Hall Project Financing:

- Annual City levy of \$230,000
- Assumptions above
- 15-year term
- Net project costs of \$2,450,000

Assuming the estimated project costs of \$2.0M - \$3.47M, this levy is projected to support at minimum Option 2 (building remodel/expansion) for the proposed City Hall project.

#### Buschmann Road Project Financing

- Annual City levy of \$342,000
- Assumptions above
- 15-year term
- Net project costs of \$3,535,325

#### Additional \$500,000 in debt service comparison

1. With Current AA BQ Rates+100 bps (padding) as our interest rate assumption the increase was around \$45,000 per year.

#### Combined Projects Financing

- Annual City levy of \$572,000
- Assumptions above
- 15-year term
- Net project costs of \$5,818,540

#### Schedule of Events/Timing

1. Attached is a draft SOE (Excel Document) and timing for a bond transaction (Word Document). The word document is a condensed version showing the things the city would be involved in. An average transaction is around 10-12 weeks. We say around 7-8 weeks from Ordering to Pricing and another 3-4 weeks from Pricing to Closing.

#### Timing of Bonding Issuance

1. Closing (Receipt of Proceeds) before June 1, 2024-Since the first interest needs to be within a year of closing this would mean they would have the first interest payment on 12/15/2024. Since the taxes would not be collected by that point, they would need to either use Capitalized Interest (Bond Proceeds) or City Contribution (Cash) to make that payment.
2. Closing (Receipt of Proceeds) after June 1, 2024- If they have closing after June 1, 2024, they could have that first interest payment on June 15, 2025 which means they would have the 2024 taxes collected to pay for that.

#### Bonding versus Cash Payments

We anticipate additional discussion on issuing bonds versus using existing City funds (cash) to finance a portion of the project costs for both the City Hall and Buschmann Road projects. The discussion will be based on a variety of factors including type of project being financed, availability of funds, bonding authority and future capital needs. City staff is estimating it will have approximately \$4 million available funds at the end of 2023 with additional investment funds of \$5.5 million, of which \$1.5 million is currently sitting in money markets and could be liquidated. 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 (\$200k - \$300k) that could be transferred to the Capital Fund at the end of the year.

Supplemental Details:

Debt Limit Consideration:

We checked the City's legal debt limit which is classified as Estimated Market Value\*3%. Since the City does not have any outstanding debt that counts against the debt limit, they will meet this requirement with this issuance. Our Calculation is below.

**Legal Debt Limit:**

2023 Estimated Market Value	\$776,061,600
3% Debt Limit	<u>3.00%</u>
Legal Debt Limit:	\$23,281,848

Bond Authority:

Initial bonding authority we have assumed would be Capital Improvement Plan (CIP) Bonds (MN Statutes, Section 475.521). There is a statutory limitation of annual debt service for all existing and proposed CIP debt that cannot exceed .016% of the estimated market value. The City does not have any outstanding CIP so they will meet this requirement. The preliminary calculation is below:

<b>CIP Authority</b>	
Maximum P+I (0.16%) of EMV	\$1,241,699
Option 1 Est. Max DS	\$102,212
Option 4 Est. Max DS	\$356,627

An additional detail we will need to confirm with bond counsel is if the "community room" under option 4 would be a qualifying project under the CIP authority or if another financing option (such as tax abatement) will need to be explored. By definition under CIP Authority, "capital improvement" means acquisition or betterment of public lands, buildings or other improvements for the purpose of a city hall, town hall, library, public safety facility, and public works facility. If not, we would have to explore other options.