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Public Hearing for Amendment: May 8, 2023

FIVE - YEAR CAPITAL IMPROVEMENT PLAN FOR  
ISSUANCE OF GENERAL OBLIGATION CIP BONDS:

# City of Grand Rapids, MN

## 2021 - 2025



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**BUILDING COMMUNITIES. IT'S WHAT WE DO.**

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## **I. INTRODUCTION**

In 2003, the Minnesota State Legislature adopted statute 475.521, referred to herein as the “CIP Act”. The CIP Act allows cities to issue municipal bonds under a capital improvement plan without a referendum requirement (except for the so-called “reverse referendum” described below). The CIP Act applies to specific capital improvements for the purposes of city halls, public works, and public safety facilities. The 2005 Legislature added towns to the meaning of a municipality, as well as libraries and town halls to the meaning of a capital improvement under the CIP Act.

Throughout this plan, the term “Capital Improvement” refers only to those improvements identified in the CIP Act, as summarized above. Capital expenditures for other public improvements in the City will be financed through other means identified in the City’s annual budgeting process and are not governed by this plan.

### **As Amended May 8, 2023**

The City of Grand Rapids, Minnesota (the “City”) has issued the \$6,255,000 General Obligation Bonds, Series 2021B to, in part, finance \$4,983,190 in capital expenditures under a Capital Improvement Plan over a period of five years (the “Plan”).

## **II. PURPOSE**

A Capital Improvement as defined in the CIP Act is a major expenditure of municipal funds for the acquisition or betterment to public lands, buildings, or other improvements used as a city hall, town hall, library, public safety, or public works facility, any of which have a useful life of 5 years or more. For the purposes of the CIP Act, Capital Improvements do not include light rail transit or related activities, parks, road/bridges, administrative buildings other than a city or town hall, or land for those facilities. A Capital Improvement Plan (“CIP”), as identified by the CIP Act is a document designed to anticipate Capital Improvement expenditures over at least a five-year period so that they may be acquired, constructed and/or installed in a cost-effective and efficient manner. The CIP must set forth the estimated schedule, timing, and details of specific Capital Improvements by year, together with the

estimated cost, need for improvement, and sources of revenue to pay for the improvement.

The City of Grand Rapids, Minnesota (the “City”) believes the capital improvement process is an important element of responsible fiscal management and engages in adoption of an updated 5-year plan for city-wide capital expenditures annually as part of its budgeting process. Major capital expenditures can be anticipated and coordinated so as to minimize potentially adverse financial impacts caused by the timing and magnitude of capital outlays. As potential expenditures are reviewed, the municipality considers the benefits, costs, alternatives, and impact on operating expenditures. This coordination of capital expenditures is important to the City in achieving its goals of adequate physical assets and sound fiscal management. To offset financially difficult times, good planning is essential for the wise use of limited financial resources.

#### **As Amended May 8, 2023**

There is a proposal to amend the Plan to allow up to \$625,000 of unspent bond proceeds to fund improvements to the Library project, pursuant to Minnesota Statutes 475.521. The Library is needing repairs and improvements to the roof along and walls. Over the years, water has gotten behind the brick on the walls has caused the walls to rot due to the buildup of moisture. In order to continue to provide a safe, healthy environment for the community and staff, the repairs need to be completed. **The Plan Amendment does not increase the overall size of the budget.**

### **III. PLANNING PROCESS**

The City Council annually reviews its capital expenditures according to their priority, fiscal impact, and available funding as part of its budgeting process. The City assembles the specific capital expenditures to be undertaken within the next five years. The City Council prepares a plan based on the available funding sources. In subsequent years, the process is repeated as expenditures are completed and new needs arise.

If the plan calls for general obligation bonds to finance certain Capital Improvements (referred to herein as “CIP Bonds”), the City Council must follow an additional set of procedures. The City may adopt a CIP specifically for those Capital Improvements and address various factors

identified within the CIP Act. This CIP is designed to supplement the City's established capital planning process.

The Council must hold a public hearing regarding issuance of the CIP Bonds to obtain public comment on the matter. Notice of such hearing must be published in the official newspaper of the municipality at least 14, but not more than 28 days prior to the date of the public hearing. In addition, the notice may be posted on the City's official web site.

The Council must approve the sale of CIP Bonds by a 3/5ths vote of its membership. However, issuance of CIP Bonds is also subject to reverse referendum: if a petition is signed by voters equal to at least five percent of the votes cast in the City in last municipal general election and is filed with the City Clerk within 30 days after the public hearing regarding the CIP Bonds, the CIP Bonds may not be issued unless approved by a majority of voters voting on the question of issuing the obligations.

Further, the maximum debt service in any year on all outstanding CIP Bonds is 0.16% of the estimated market value of property in the city, using the market value for the taxes-payable year in which the bonds are issued.

After the CIP has been approved and general obligation bonds have been authorized, the City works with its municipal advisor to prepare a bond sale and repayment schedule. Assuming no petition for a referendum is filed, the bonds are sold, and when proceeds from the sale of the bonds (and any other identified revenue sources) become available, prior qualifying expenditures for specified Capital Improvements may be reimbursed and new expenditures made.

#### **IV. PROJECT SUMMARY**

The only expenditures to be undertaken with this CIP for the years 2021 to 2025 is the construction of a new fire station further described in Appendix A. The aggregate principal amount of CIP Bonds to be issued under this CIP shall not exceed \$4,800,000. All other foreseeable capital expenditures within the City shall come through other means as identified within the City's annual budgeting process.

The CIP Act requires the City Council to consider eight factors in preparing the CIP and authorizing general obligation bonds:

1. Condition of the City's existing infrastructure, including projected need for repair or replacement.
2. Likely demand for the improvement(s).
3. Estimated cost of the improvement(s).
4. Available public resources.
5. Level of overlapping debt in the City.
6. Relative benefits and costs of alternative uses of funds.
7. Operating costs of the proposed improvement(s).
8. Alternatives for providing services most efficiently through shared facilities with other cities or local governments.

The City has considered the eight points as they relate to the fire station project and issuance of CIP Bonds. The findings are as follows:

### **Conditions of City Infrastructure and Need for the Project**

The new fire station is proposed to be constructed south of 11<sup>th</sup> Street SE between Pokegama Avenue and SE Second Avenue. It is required to accommodate Itasca County's fire prevention and protection needs. It also allows the fire department to consolidate functions and accommodate all fire equipment on one site instead of being located at three separate sites. Furthermore, the existing fire station, which is attached to the courthouse building, will be sold to Itasca County for the purpose of expanding the correctional facility system. The fire station will meet the needs of Itasca County and accommodate future growth for the next 40 years.

### **Demand for the Project**

The City has a responsibility to deliver services that provide for the safety, health, and welfare of residents and their property. To serve residents and to do their jobs efficiently and safely, City employees need adequate facilities. The demand for the new facility is in response to the desire to continue providing a level of service necessary for residents.

## Estimated Cost of the Project

The fire station is estimated to cost up to \$4,555,000 inclusive of construction and soft costs. Construction contracts are anticipated to be awarded in the Spring or Summer of 2021. The final bonding amount, not to exceed \$4,800,000, will be subject to City Council approval after contracts are approved for the project.

## Availability of Public Resources

The City proposes to fund the fire station project with CIP Bond proceeds and potentially supplemented by other available capital resources on hand. Given the size of the project, debt is necessary to provide for the costs and preserve necessary operating resources for the City.

## Level of Overlapping Debt

The final official statement for the City's 2020A bonds, dated October 16, 2020, contained the following overlapping debt:

<b>Taxing District</b>	<b>2019/20 Adjusted Taxable Net Tax Capacity</b>	<b>% In City</b>	<b>Total G.O. Debt<sup>2</sup></b>	<b>City's Proportionate Share</b>
Itasca County	\$58,055,706	14.4443%	\$9,202,660	\$ 1,329,260
I.S.D. No. 316 (Greenway Public Schools)	6,377,150	4.6916%	25,045,320 <sup>3</sup>	1,175,026
I.S.D. No 318 (Grand Rapids Public Schools)	40,410,884	20.0109%	91,345,000 <sup>4</sup>	18,278,957
City's Share of Total Overlapping Debt				<u>\$20,783,243</u>

## Relative Costs and Benefits of Alternative Uses of the Funds

The space limitations within the current fire station, its age and the desire for increased operational efficiencies drive the need for this project in the City. The City did explore alternatives such as renovation and expansion of existing facilities but determined this would not fully meet the needs of the City.

## Operating Costs of the Proposed Improvements

The current facilities require additional space as well as significant maintenance and repair. The City estimates significant investments are necessary to address the current needs and problems. The City anticipates that simply addressing maintenance and replacement costs as they are incurred will not provide adequate longevity at the existing site.

Moving forward with a full-scale replacement facility will provide the space and functionality necessary to sustain fire operations for more than 30 years. Significant repairs to the new structure would not be necessary for several decades. A new facility also provides many efficiencies making the department more effective such as adequate training opportunities on site, and adequate room for current and future operations.

## Options for Shared Facilities with Other Cities or Local Government

The City determined sharing a facility with another community or local government is not a viable alternative to the City's plans of constructing a new fire station.

## **V. FINANCING**

The total amount of requested expenditures under this CIP is up to \$4,800,000. If these expenditures are to be funded, that amount of money is anticipated to be generated through the sale of general obligation capital improvement plan bonds within the identified five-year period. The anticipated bond sizing is based upon funding the estimated construction and soft costs identified for the project, plus estimated issuance costs and contingency. Principal and interest on the CIP Bonds will be paid through a tax levy and current estimates of size and repayment of the CIP Bonds under consideration is shown in Appendix B.

In financing the CIP, two significant statutory limitations apply. First, under Chapter 475, with few exceptions, cities cannot incur debt in excess of 3% of the assessor's estimated market value (EMV) for the City. As noted in the table below, the final official statement for the City's 2020A bonds, issued on October 16, 2020, shows the City is within the required threshold with unused debt:



<b>Net Debt Limit</b>	
Assessor's Estimated Market Value	820,008,600
Multiply by 3%	0.03
Statutory Debt Limit	24,600,258
Less: Debt Paid Solely from Taxes	(12,695,000)
Less: Debt Paid Solely from Annual Appropriations	(989,857)
Unused Debt Limit	10,915,401

Second, a separate limitation under the CIP Act is that, without referendum, the total amount of principal and interest in any single year payable on all CIP Bonds issued by the City cannot exceed 0.16% of the total estimated market value in the municipality. In the City, that maximum annual debt service amount is \$1,312,014 for the 2019/20 tax year ( $\$820,008,600 \times .0016$ ). The highest annual principal and interest payments on the City's existing CIP Bonds plus those proposed to be issued under this CIP are estimated to be approximately \$708,500. As such, debt service on the CIP Bonds will be within the annual limits under the CIP Act.

## **VI. PLAN CONTINUATION**

This CIP should be reviewed as needed by the City Council using the process outlined in this document. Through annual amendment, the City Council reviews proposed expenditures, makes priority decisions, and seeks funding for those expenditures it deems necessary for the City. If deemed appropriate, the Council should prepare an update to this CIP for future CIP Bond issuance.

## APPENDIX A

### Plan Project Costs:

The plan includes capital expenditures of approximately \$4,555,000 for the fire station project which is to be funded with up to \$4,800,000 in bond proceeds. The following projects are currently identified within the 2021 to 2025 timeframe.

Project Costs		
Year	Project	Amount
2021	Fire Station	\$ 4,555,000
2022	None Anticipated	\$ -
2023	None Anticipated	\$ -
2024	None Anticipated	\$ -
2025	None Anticipated	\$ -
<b>TOTAL</b>		<b>\$ 4,555,000</b>

### Proposed CIP Bond Issues:

Proposed CIP Bond Issues		
Year		Amount
2021	\$	4,800,000
2022	\$	-
2023	\$	-
2024	\$	-
2025	\$	-
<b>TOTAL</b>	<b>\$</b>	<b>4,800,000</b>

### As Amended May 8, 2023 to add the following

The following projects are currently identified within the 2021 to 2025 timeframe.

Project Costs		
Year	Project	Amount
2021	Fire Station	\$ 3,930,000
2022	None Anticipated	\$ -
2023	Library Improvements	\$ 625,000
2024	None Anticipated	\$ -
2025	None Anticipated	\$ -
<b>TOTAL</b>		<b>\$ 4,555,000</b>

# APPENDIX B

## Proposed 2021 CIP Bond Issue:

### City of Grand Rapids, Minnesota

\$6,255,000 General Obligation Bonds, Series 2021B

Issue Summary - 20 Years All Projects

Assumes Current Market BQ AA- Rates plus 15bps

### Total Issue Sources And Uses

Dated 07/01/2021 | Delivered 07/01/2021

	Capital Improvements	Tax Abatement	Issue Summary
<b>Sources Of Funds</b>			
Par Amount of Bonds	\$4,705,000.00	\$1,550,000.00	\$6,255,000.00
<b>Total Sources</b>	<b>\$4,705,000.00</b>	<b>\$1,550,000.00</b>	<b>\$6,255,000.00</b>
<b>Uses Of Funds</b>			
Total Underwriter's Discount (1.200%)	56,460.00	18,600.00	75,060.00
Costs of Issuance	49,645.09	16,354.91	66,000.00
Deposit to Capitalized Interest (CIF) Fund	42,609.58	14,017.50	56,627.08
Deposit to Project Construction Fund	4,554,215.00	1,500,000.00	6,054,215.00
Rounding Amount	2,070.33	1,027.59	3,097.92
<b>Total Uses</b>	<b>\$4,705,000.00</b>	<b>\$1,550,000.00</b>	<b>\$6,255,000.00</b>

## City of Grand Rapids, Minnesota

\$4,705,000 General Obligation Bonds, Series 2021B

Capital Improvements

Assumes Current Market BQ AA- Rates plus 15bps

### Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	CIF	Net New D/S	Fiscal Total
07/01/2021	-	-	-	-	-	-	-
02/01/2022	-	-	42,609.58	42,609.58	(42,609.58)	-	-
08/01/2022	-	-	36,522.50	36,522.50	-	36,522.50	-
02/01/2023	210,000.00	0.450%	36,522.50	246,522.50	-	246,522.50	283,045.00
08/01/2023	-	-	36,050.00	36,050.00	-	36,050.00	-
02/01/2024	210,000.00	0.600%	36,050.00	246,050.00	-	246,050.00	282,100.00
08/01/2024	-	-	35,420.00	35,420.00	-	35,420.00	-
02/01/2025	210,000.00	0.750%	35,420.00	245,420.00	-	245,420.00	280,840.00
08/01/2025	-	-	34,632.50	34,632.50	-	34,632.50	-
02/01/2026	215,000.00	0.850%	34,632.50	249,632.50	-	249,632.50	284,265.00
08/01/2026	-	-	33,718.75	33,718.75	-	33,718.75	-
02/01/2027	215,000.00	1.050%	33,718.75	248,718.75	-	248,718.75	282,437.50
08/01/2027	-	-	32,590.00	32,590.00	-	32,590.00	-
02/01/2028	215,000.00	1.150%	32,590.00	247,590.00	-	247,590.00	280,180.00
08/01/2028	-	-	31,353.75	31,353.75	-	31,353.75	-
02/01/2029	220,000.00	1.300%	31,353.75	251,353.75	-	251,353.75	282,707.50
08/01/2029	-	-	29,923.75	29,923.75	-	29,923.75	-
02/01/2030	225,000.00	1.400%	29,923.75	254,923.75	-	254,923.75	284,847.50
08/01/2030	-	-	28,348.75	28,348.75	-	28,348.75	-
02/01/2031	225,000.00	1.500%	28,348.75	253,348.75	-	253,348.75	281,697.50
08/01/2031	-	-	26,661.25	26,661.25	-	26,661.25	-
02/01/2032	230,000.00	1.550%	26,661.25	256,661.25	-	256,661.25	283,322.50
08/01/2032	-	-	24,878.75	24,878.75	-	24,878.75	-
02/01/2033	235,000.00	1.600%	24,878.75	259,878.75	-	259,878.75	284,757.50
08/01/2033	-	-	22,998.75	22,998.75	-	22,998.75	-
02/01/2034	235,000.00	1.700%	22,998.75	257,998.75	-	257,998.75	280,997.50
08/01/2034	-	-	21,001.25	21,001.25	-	21,001.25	-
02/01/2035	240,000.00	1.800%	21,001.25	261,001.25	-	261,001.25	282,002.50
08/01/2035	-	-	18,841.25	18,841.25	-	18,841.25	-
02/01/2036	245,000.00	1.850%	18,841.25	263,841.25	-	263,841.25	282,682.50
08/01/2036	-	-	16,575.00	16,575.00	-	16,575.00	-
02/01/2037	250,000.00	1.900%	16,575.00	266,575.00	-	266,575.00	283,150.00
08/01/2037	-	-	14,200.00	14,200.00	-	14,200.00	-
02/01/2038	255,000.00	1.950%	14,200.00	269,200.00	-	269,200.00	283,400.00
08/01/2038	-	-	11,713.75	11,713.75	-	11,713.75	-
02/01/2039	260,000.00	2.050%	11,713.75	271,713.75	-	271,713.75	283,427.50
08/01/2039	-	-	9,048.75	9,048.75	-	9,048.75	-
02/01/2040	265,000.00	2.150%	9,048.75	274,048.75	-	274,048.75	283,097.50
08/01/2040	-	-	6,200.00	6,200.00	-	6,200.00	-
02/01/2041	270,000.00	2.250%	6,200.00	276,200.00	-	276,200.00	282,400.00
08/01/2041	-	-	3,162.50	3,162.50	-	3,162.50	-
02/01/2042	275,000.00	2.300%	3,162.50	278,162.50	-	278,162.50	281,325.00
<b>Total</b>	<b>\$4,705,000.00</b>	<b>-</b>	<b>\$990,292.08</b>	<b>\$5,695,292.08</b>	<b>(42,609.58)</b>	<b>\$5,652,682.50</b>	<b>-</b>