

MEMORANDUM

TO: Joshua Tetzlaff, City of New Prague
FROM: Rebecca Kurtz and Keith Dahl, Ehlers
DATE: November 13, 2024
SUBJECT: Financing Options for Police Facility

The City of New Prague is considering options for replacing the Police Station and constructing a new facility adjacent to the current fire and ambulance facility (the “Project”). Based on preliminary estimates, the Project is anticipated to be \$12 million, and it is anticipated the City will receive bids in February 2025.

In our experience Public Safety facilities can be challenging projects to fund in large part because the only revenue source for the project is property taxes and possibly a small amount of grant funding.

In these types of projects, costs become a key component because of the reliance on property taxes. While we encourage the City to explore grant opportunities, in our experience, grant opportunities are limited. In addition, while the Legislature may provide assistance for public safety facilities, in our experience, these funds would need to be secured prior to the project moving forward. Typically, State funds cannot be used for reimbursement after a project is complete.

As we have begun to explore options for funding assistance, we reviewed the Community Facilities Direct Loan and Grant Program through the USDA. This program provides low interest loans and grants for essential community facilities. Based on preliminary discussions, due to the City’s median household income, it is unlikely the City would qualify for this program. We will continue to explore other possible options.

Financing Options

In order for a City to issue debt, the City needs to comply with Minnesota State Statutes. While there are options on the type of debt that can be issued to fund this Project, ultimately, the bonds are secured by ad valorem taxes.

The following is a summary of the State statutes that allow the issuance of debt for a police station, as well as key points for each approach:

Financing Options	Referendum G.O. Bonds	Capital Improvement G.O. Bonds	EDA Lease Revenue Bonds
Minn. Statutes	Section 475	Section 475.521	Section 465.71
Bond Process	<ul style="list-style-type: none"> ▪ Council calls for an election (special or at the time of the general election) ▪ Notice of Election published ▪ Election held ▪ Majority voting in election determines if bonds can be issued 	<ul style="list-style-type: none"> ▪ Staff prepares CIP Plan ▪ Council calls a public hearing ▪ Holds public hearing ▪ CIP Plan approval requires 3/5ths Council membership approval ▪ Wait 30 days after hearing to see if reverse referendum petition filed ▪ Bonds can be issued if no petition filed 	<ul style="list-style-type: none"> ▪ EDA agrees to issue bonds for project ▪ City enters into lease with EDA for term of bonds ▪ Annually the City agrees to budget to make payment to EDA to cover bonds. ▪ EDA issues bonds based on City lease
Advantages	<ul style="list-style-type: none"> ▪ May issue General Obligation (G.O.) bonds ▪ G.O. Bonds have lowest interest rate and issuance cost ▪ Property taxes levied on tax capacity to pay bonds ▪ Subject to Net Debt limit of 3% of Assessors Estimated Market Value 	<ul style="list-style-type: none"> ▪ May issue G.O. ▪ G.O. Bonds have lowest interest rate and issuance cost ▪ Property Taxes levied on tax capacity to pay bonds ▪ Subject to 3% Net Debt limit ▪ Annual levy for debt service cannot exceed .16% of market value (\$1,587,833 based on Pay 2024) 	<ul style="list-style-type: none"> ▪ Ability to issue Lease Revenue bonds can be accomplished with a simple majority Council vote ▪ Payment annually budgeted as part of operating budget and then levied on tax capacity to pay bonds
Disadvantages	<ul style="list-style-type: none"> ▪ Subject to referendum success ▪ May be difficult to issue bonds under a different authority if referendum not successful and project needed ▪ Requires 84-day notification to County Auditor ▪ Ballot Question assumes entire payment paid by taxes 	<ul style="list-style-type: none"> ▪ Potentially subject to referendum success if a petition signed by voters of at least 5% of the votes cast in the last municipal general election is received within 30 days after the public hearing ▪ May be difficult to issue Lease Revenue Bonds if referendum not successful and project needed 	<ul style="list-style-type: none"> ▪ Not subject to referendum or petition ▪ Credit rating one step lower than a G.O. ▪ Lease Revenue Bonds typically have higher interest rate (.50-.75%) and higher issuance cost ▪ May require debt reserve ▪ May need economic development district public hearing ▪ Leases of \$1,000,000+ are subject to 3% Net Debt limit

Financing Term

It is our understanding that the City has been exploring a bond issue with a 25-year term. Using current interest rates plus 25 basis points, we are estimating annual debt service payments of \$818,000 with a total interest cost of \$8.2 million. We will continue to monitor the market and provide updates as rates change over the next months.

Under Minnesota Statutes, the City could issue debt with a maximum 30-year term. While this is not as common in Minnesota, it is common in the marketplace across the county. Under this scenario, the estimated annual debt service would be decrease, but the interest expense would increase.

I will be at the meeting to address any questions.