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## MEMORANDUM

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**TO:** HONORABLE MAYOR AND CITY COUNCIL  
**FROM:** JOSHUA TETZLAFF, CITY ADMINISTRATOR  
**SUBJECT:** POLICE STATION FUNDING OPTIONS  
**DATE:** JULY 16, 2025

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With a General Obligation Capital Improvement Bond (CIP Bond) petition submitted that meets the requirements set by the State, the City Council now must consider its options for funding the police station that is being built alongside the fire station. Initially, the City Council had chosen the option to use a CIP Bond, even with the possibility of a petition requiring a referendum vote, due to the fact it would allow the City to borrow at the lowest possible rate and thus, provide the smallest impact to taxpayers. Now, for the City Council to use this method of funding, it must ask the voters whether it would be allowed. This potential vote wouldn't happen for another four months, which means CIP Bond funding would likely not be available until the end of the year, even with a successful referendum. Because of this possibility, the City Council should also consider an EDA Lease Revenue Bond (EDA Bond) as a form of and the advantages and disadvantages of each form.

### G.O. CIP Bond (following petition)

- *Lowest possible interest rate.* On July 14, 2025, the rate for a CIP Bond is about 4.614%. Of note, this is 0.2036% higher than the bid that was ultimately rejected in May 2025 when an error was found in the bonding process. That bid was 4.4104%.
  - o Total interest cost (based on July 14<sup>th</sup> rate) is estimated to be \$8,297,420.
- *Average annual payment is estimated at \$634,049.* This would equate to about \$192.60 per year (\$16.05 per month) for a home valued at \$375,000.
- *Requires voter approval.* Because a petition was submitted that meets the requirements of Minnesota Statute, voters would need to approve the use of the CIP Bond during a special election on November 4<sup>th</sup>, 2025 for the City to be able to use it to fund the police station. If voters do not approve the use of a CIP Bond, the City Council would then need to consider another form of funding.
- *Funding Availability.* Funding from this type of bond would be available as early as December 31, 2025.
- *Potential investment earnings.* Cities can invest portions of unused bond proceeds for a short period of time before they are needed, if those investments meet requirements set by the State. Using the amount of time the City would hold the bond proceeds, a current estimate of investment earnings for these proceeds would be about \$45,650. These earnings could be placed back into the bond payment fund to support repayment in lieu of tax levy.

## EDA Lease Revenue Bond

- *Higher interest rate than CIP Bond.* On July 14, 2025, the rate for an EDA Bond is about 5.078%, which is about 0.464% higher than the CIP Bond rate. Of note, this spread does fluctuate, though EDA Bonds generally have a 0.2 – 0.5 higher rate.
  - o Total interest cost (based on July 14 rate) is estimated to be \$9,512,500.
- *Average annual payment is estimated at \$677,328.* This would equate to about \$195.95 per year (\$16.33 per month) for a home valued at \$375,000.
- *Does not require a public hearing or voter approval.* Procedurally, the City would need to update its EDA Enabling Resolution, which requires a City Council public hearing, and the City's EDA would need to establish an Economic Development District, which requires a public hearing. As has been discussed, both actions will likely take place even without the discussion of a potential EDA Bond so that the EDA is able to come out of its Strategic Planning process with goals of economic development growth.
- *Funding Availability.* Funding would be available as early as October 1, 2025. The shorter time frame is due to not needing to wait until November for a special election. The sale could happen as early as September following the updates of the EDA Enabling Resolution and the establishment of the Economic Development District.
- *Potential investment earnings.* Being able to have the funds as much as three months earlier than the CIP Bond process would allow the City to potentially earn a greater amount of investment earnings. Right now, those investment earnings in total would be about \$112,018.

## Things to Consider

- *Election.*
  - o *Deadlines.* According to Scott County, the City has two primary deadlines it needs to meet to have a referendum question considered on November 4<sup>th</sup>. First, if the City wants to participate in the November 2025 election, the City must name an Absentee Location by July 29<sup>th</sup>. This step is not required of the City if it does not have any elections or referendum questions. Second, the City needs to submit notice to the County by August 12<sup>th</sup> that it will be holding a special election.
    - Of note, if the City decides to designate an Absentee Location, and then decides to not submit notice to the County of a special election, it will still need to staff the Absentee Location for the 45-days prior to the special election day. This is so that any voters in the New Prague precinct would be able to vote absentee for other off-election year elections/ballot questions (i.e. School District referendum). If the City does not name an Absentee Location because it does not have any elections or ballot questions, then no staffing is needed.
  - o *Cost.* In a normal election year, the City has costs related to staffing and supplies at the election site. Staff have been told by the County that in an off-year, such as this, all costs of the election would need to be born by the City. This includes ballot ordering, newspaper notices of sample ballots, ballot machine programming, and absentee supplies. While my initial estimate of holding a special election was about \$10,000, that number could be higher with these other costs involved. Our staff has no experience with administering a special election and using some of the estimates from the County for that, the costs of this election could exceed \$20,000.

- *Training.* In a normal election year, training is available for head election judges (City staff) and temporary judges to learn the process. The County then provides continuing support throughout the year. While there will be online training for head judges, the County does not offer extensive election training in off-years as there is generally no need for it. The lack of formalized training coupled with the staff turnover the City has realized in the last year means the amount of experience City staff has with elections is slim. Three City staff members who were part of our primary election expertise over the last couple election cycles have all moved on to other positions or retirement. With the small amount of training available, and then the need for head judges (City staff) to train the temporary judges due to lack of formalized training from the County, there is an unquantifiable burden that will be placed on City staff to administer a special election in an off-year. This will be in addition to the normal day-to-day roles.
- *Partnering with ISD 721.* Discussion was had at the last City Council meeting about potentially partnering with the School District during the election to share some of the burden. Assuming the School District is having a referendum, that is certainly a possibility for some aspects of the election. According to the County, the City is higher in the hierarchy of elections and so would need to host an Absentee Location for all residents who reside in City Limits. The School District would then either host the remaining Absentee voters in a separate location or, if space permitted, they could be hosted at the same location but would need to be separate from each other. This means that City Hall would be required to host a location and have the location staffed. If the City and the School District decided to host the remaining District voters, additional staffing would likely be needed. On election day itself, both the City and School District would be able to work together for the precinct in City limits.
- *Administering the Election.* Due to it being an off year, the County has stated that the City would have full responsibility for administering the election and everything that entails. In normal election years, the County administers the election, both regular and absentee, and provides materials, supplies, equipment, and support throughout. This is done by County staff who have election administration as part of their duties. For the City, election administration is done in addition to their regular duties.
- *Uncertainty at the Federal level.* The last six months have seen a flurry of activity at the Federal level. Regardless of political beliefs, the amount of activity and policy change has caused uncertainty in the bond markets. This has made predicting interest rates for bonds to be more difficult. Speaking with Ehlers, predicting where bond markets may be in five months when a CIP Bond would sell is doing so with an extreme uncertainty. Potential interest rates could go anywhere and with the high volume of policy changes, there is no reliable way to predict how the bond markets will react over that length of time. While anything could happen in the two months an EDA Bond would sell, the shorter time frame means more certainty, even if only marginally so.
- *Funds Available and Needs.* With the advent that additional funds now won't be available until October 2025 at the earliest, the current state of the City's fund balances and how they would support the project until outside funding is available need to be considered. Working with Wold, estimates are that by October 1<sup>st</sup>, the project will have cost about \$2.5m. By January 1<sup>st</sup>, that cost rises to about \$5.2m. Until funding is available, other City funds will need to support the Police Addition Construction Fund.

As of this memo being written on 7/16, the General Fund has a fund balance of about \$3.6m. The City is expecting about half of its LGA to be paid by the end of July, which would increase the fund balance to about \$4m. After that, the next large payments are not expected until December, totaling about \$2.5m between property taxes and LGA. If the General Fund is used as the primary source of funds for construction until outside funding is obtained, I would estimate that the General Fund by itself may be able to support the police station construction until around early October. Around that point, the

estimated cost of the police station will be around \$2.5m and the General Fund will need to have funds to support itself for the remainder of the year until December tax and LGA payments.

If the City wanted to continue using its own funds to support construction beyond October, it would need to look at utility funds. I believe the primary fund to consider would be the Sanitary Sewer Fund, which had about \$9.6m in its fund balance at the end of 2024. With a planned shortfall of about \$500k to spend down some of that fund balance, the projected fund balance at the end of 2025 for the Sanitary Fund is about \$9.1m. This funding is planned to be used for large projects to maintain the facility in coming years and if used without a replacement plan, would require sanitary sewer charge increases to offset that spending. As previously shared, there are projects that are planned to take place at the wastewater plant in 2026 to maintain the aging facility that will also dip into those reserves.

### **Recommendation**

The City is building a police station that needs to be funded. Through discussions over the last three years, the City Council originally chose the CIP Bond route in an attempt to make this project have the lowest tax impact possible on residents. With a submitted petition now requiring the use of CIP Bonds to be approved by voters, there is little certainty that a CIP Bond sold in December (assuming it is approved by voters) will have a lower tax impact than an EDA Bond sold in October. There is not a guarantee that the City will have a bid opening that sees both a lower-than-expected interest rate and a discount on the bond that the City realized in May. There is a chance that this project now costs more than expected. How much more? That can't be known until the City is able to secure funding.

When I consider the uncertainty of future interest rates, the uncertainty of the costs of a special election that the City has to administer on its own, the City's available funds in the short-term to self-fund the project, and the annual tax impact differences between a CIP Bond right now and an EDA Bond, my recommendation is to move forward with the EDA Bond.

Yes, this project is going to cost more using an EDA Bond than it would for a CIP Bond. And yes, it's possible a special election goes off without a hitch, minimally hindering staff from their day-to-day work while also allowing residents easy access to voting. And yes, it's possible that bond rates go down by December. But I believe that the potential tax impact of an EDA Bond vs. a CIP Bond, even with the higher total interest costs, make the shift in funding source worth not having to wade into partially unknown, uncertain territory. This will allow the City Council to still accomplish what it set out to do three years ago when the conversation about addressing the problem of an undersized, outdated police station was first brought up twenty years ago.