

DDA

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April 4, 2023

RECOMMENDATIONS – FIRE HALL FINANCING

Mr. Todd Burgess, Mayor
Ms. Lori Johnson, City Clerk -Treasurer
City of Carlos
109 1st Street West
PO Box 276
Carlos, MN 56319

Honorable Mayor Burgess, Members of City Council, and Ms. Johnson:

The purpose of this letter is to outline the financing recommendations for the proposed \$3,225,000 new Fire Hall for the City of Carlos. This letter will review and outline the statutory authority, revenue requirements, and financial impacts for the proposed facility.

Statutory Authority

Cities must cite the specific statutory authority they intend to use before issuing bonds. Since this project exceeds the borrowing threshold for General Obligation Capital Improvement Bonds (outlined in my letter to Council on January 5, 2023), and special election authority represents too much uncertainty, I'm recommending that the debt be structured as tax exempt Public Project Revenue Bonds issued through an Economic Development Authority.

State law gives Economic Development Authorities or Housing and Redevelopment Authorities the ability to own and finance the construction or acquisition of real estate to be rented or leased to public entities and private developers. Since the EDA or HRA is a unit of government, State law requires the EDA or HRA to borrow money through the issuance of bonds and notes.

In this scenario, the EDA would lease the facility to the City to utilize as a Fire Department, pledging the rent revenues to the repayment to the bonds. The City would levy each year to pay the rent as part of its budgetary process. The benefits to the lease option are no uncertainty in the borrowing process and no statutory payment limitations (borrowing through an HRA would be similar to an EDA).

However, the EDA or HRA cannot pledge the full faith and/or general taxing power of the city to the payment of the bonds. As such, the documents would include an "annual appropriation" clause that would allow the City to back out in any given year. As such, these types of borrowings have slightly more risk to the purchaser of the debt and will carry a higher interest rate and have higher issuance costs as well.

To formally borrow for the fire hall, the City would need to create an Economic Development Authority. The creation of the EDA requires a public hearing, along with the drafting of organizational documents. The City Council would most likely serve as the EDA Board.

Financial Impacts/Considerations:

One of the questions I've been asked to address is whether or not the City can afford these projects. Affordability is a bit subjective, but the financial industry uses certain thresholds to determine the credit worthiness of a borrower. Two of these are as follows:

1. G.O. Debt Per Capita - \$5,000 or Lower
2. G.O. Debt to Market Value Ratio – 10% or lower

Based on the existing and proposed debt levels of the City, the following ratios apply:

	Existing Debt	New Debt
Debt Per Capita	3,506	9,982
Debt Per Market Value	5.02%	14%
2021 Population Estimate	498	
Pay 2023 Market Value	34,809,700	
Estimated Existing Debt	1,746,000	
Proposed Debt	4,971,000	

Is this alarming? No, but it is noteworthy. Just like our own personal finances, the more debt we carry the lower our credit rating. The lower our credit rating, the likelihood of higher interest rates on future borrowings goes up. That can mean future projects could be more costly than they otherwise would be.

Payment and Revenue Requirements:

The average annual debt service for this bond, based on a 25-year term, is estimated at \$228,750. This would be an annual obligation of the City. As I noted earlier, it is my understanding the Fire Department will attempt allocate these costs through their service contracts. However, if the other local units do not participate, this obligation will be solely the City's responsibility.

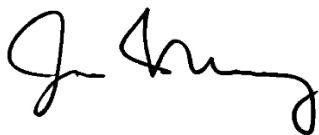
In 2023, the City levied roughly \$188,600. With the addition of the Fire Hall debt, and assuming no increased contributions by surrounding townships, the City's levy would increase to roughly \$417,350, a 121% increase which would raise property taxes by more than double! Please refer to the attached preliminary bond schedule.

Timeline

Before commencing with a formal bond sale, I would urge the City and/or Fire Department to begin the formal discussions with the Township(s) on a cost share formula. I believe an agreement to participate from the Township(s) would assist with the sale and placement of the debt.

Please let me if you have any questions. I can be reached at 320-760-0722.

Respectfully,



Jason Murray
Associate

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Carlos Economic Development Authority, Minnesota
City of Carlos, Minnesota
\$3,225,000
Tax Exempt Public Purpose Revenue Bonds, 2023A

Preliminary
Proposed for Bank Placement

Uses of Funds			Bond Details	
Construction of Fire Hall		2,279,258.00	Creation of EDA	TBD
Utility and Site Work for Fire Hall		757,720.00		
Other		-	Set Sale Date	TBD
Other		-	Award Date	TBD
			Dated Date	6/1/2023
			Closing Date	6/1/2023
			1st Interest Payment	2/1/2024
			Proceeds spent by:	12/31/2024
				to Dated Date
Total Project Costs		3,036,978.00	Purchase Price	3,225,000.00
Underwriter's Discount Allowance		-	Net Interest Cost	2,602,300.00
Unused Underwriter's Discount Allowance		-	Net Effective Rate	5.0000%
Financial Adviser	Verified	19,000.00	Average Coupon	5.0000%
Bond Counsel	Estimate	10,000.00	Average Life	16.1383
Pay Agent/Registrar	Verified	750.00	Yield	
Printing/Miscellaneous	Verified	1,500.00	Call Option	TBD
Rating Agency		-	Purchaser	TBD
Capitalized Interest		107,500.00	Bond Counsel	Fryberger Law Firm
Placement Agent	1.50%	48,375.00	Pay Agent	Northland Trust Services
Rounding		897.00	Tax Status	Tax Exempt, Bank Qualified
		<u>3,225,000.00</u>	Continuing Disclosure	TBD
			Rebate	\$5 million Small Issuer Exemption
			Statutory Authority	MS 469, 475
Sources of Funds				
Bond Issue		3,225,000.00		
City Contribution		-		
Other		-		
Construction Fund Earnings		-		
		<u>3,225,000.00</u>		

Payment Schedule & Cashflow

Payment Schedule					Pledged Revenues		Account Balances	
12-Month Period ending	Principal	Interest Rate	Interest	Payment Total	Collection Year	Lease Revenues	Surplus (deficit)	Account Balance
6/1/2023							Deposit to Debt Service at Closing >	108,397
2/1/2024	-	5.000%	107,500	107,500	2023	-	(107,500)	897
2/1/2025	68,000	5.000%	161,250	229,250	2024	228,353	(897)	-
2/1/2026	71,000	5.000%	157,850	228,850	2025	228,850	-	-
2/1/2027	75,000	5.000%	154,300	229,300	2026	229,300	-	-
2/1/2028	78,000	5.000%	150,550	228,550	2027	228,550	-	-
2/1/2029	82,000	5.000%	146,650	228,650	2028	228,650	-	-
2/1/2030	86,000	5.000%	142,550	228,550	2029	228,550	-	-
2/1/2031	91,000	5.000%	138,250	229,250	2030	229,250	-	-
2/1/2032	95,000	5.000%	133,700	228,700	2031	228,700	-	-
2/1/2033	100,000	5.000%	128,950	228,950	2032	228,950	-	-
2/1/2034	105,000	5.000%	123,950	228,950	2033	228,950	-	-
2/1/2035	110,000	5.000%	118,700	228,700	2034	228,700	-	-
2/1/2036	116,000	5.000%	113,200	229,200	2035	229,200	-	-
2/1/2037	121,000	5.000%	107,400	228,400	2036	228,400	-	-
2/1/2038	127,000	5.000%	101,350	228,350	2037	228,350	-	-
2/1/2039	134,000	5.000%	95,000	229,000	2038	229,000	-	-
2/1/2040	140,000	5.000%	88,300	228,300	2039	228,300	-	-
2/1/2041	147,000	5.000%	81,300	228,300	2040	228,300	-	-
2/1/2042	155,000	5.000%	73,950	228,950	2041	228,950	-	-
2/1/2043	163,000	5.000%	66,200	229,200	2042	229,200	-	-
2/1/2044	171,000	5.000%	58,050	229,050	2043	229,050	-	-
2/1/2045	179,000	5.000%	49,500	228,500	2044	228,500	-	-
2/1/2046	188,000	5.000%	40,550	228,550	2045	228,550	-	-
2/1/2047	198,000	5.000%	31,150	229,150	2046	229,150	-	-
2/1/2048	207,000	5.000%	21,250	228,250	2047	228,250	-	-
2/1/2049	218,000	5.000%	10,900	228,900	2048	228,900	-	-
	<u>3,225,000</u>		<u>2,602,300</u>	<u>5,827,300</u>		<u>5,718,903</u>	<u>(108,397)</u>	