

DDA

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January 5, 2023

PRELIMINARY RECOMMENDATIONS – FIRE HALL

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 options for the proposed construction of a new Fire Hall for the City of Carlos. This letter will review and outline the financing authority available to issue bonds for the new facility.

Summary of Project

In late 2022, the city authorized Bolton and Menk to provide an estimate for the proposed facility. Based on initial plans for the facility, total project cost is estimated at \$4.2 million. The facility will service the City of Carlos and several surrounding townships.

Statutory Authority

Cities must cite the specific statutory authority they intend to use before issuing bonds. For this project, the City has three options for consideration:

General Obligation Special Election Bonds

Chapter 475 allows bonds to be issued only upon obtaining the approval of a majority of electors voting on the question of issuing the obligations. Voter referendums may be held to approve city and town halls, fire halls, libraries, park and recreation facilities, and other municipally owned buildings.

Voter referendums can be costly and require a lengthy citizen information and voter education process. As a reminder, city officials and staff may not campaign in favor of the question. The city may distribute factual information about the bonds and the project but must be careful not to cross the boundary to advocacy.

Net debt levy limits may apply, which may limit the borrowing to roughly \$1.1 million. However, limits may not apply depending on the contract for service with surrounding townships. We would need bond counsel to provide a clear determination.

General Obligation Capital Improvement Bonds: This bond can be issued as a General Obligation Capital Improvement Bonds. A capital improvement as defined by MS Section 475.521 as an “acquisition or betterment of public lands, buildings, or other improvements for a city hall, town hall, library, public safety facility, and public works facility,” with a useful life of 5 years or more.

The Capital Improvement Plan ("CIP") is a document designed to anticipate capital improvement expenditures and schedule them over a five-year period. Upon completion of the CIP, the City must publish and hold a public hearing and wait 30-days to see if voters block implementation of the plan by submitting a petition signed by 5% of eligible voters in last general election. (This process is often referred to as "reverse referendum.") If no petition, the city may proceed. If the city receives a valid petition, it cannot issue this type of bond unless it is authorized via a referendum.

One of the statutory limitations with Capital Improvement Bonds is the principal and interest payment in any given year for the City cannot exceed .16 percent of the estimated market value of the property in the municipality. The calculation is as follows:

Preliminary EMV for 2022/Pay 2023:	34,985,700
	X .0016
Maximum Principal & Interest Payment:	\$ 55,977.12

Based on this limitation, the max borrowing, based on a 20-year term, is estimated at \$750,000.

Potentially, the city could use the statutory authority but borrow the funds through USDA. The USDA Community Facilities Programs offer direct loans, loan guarantees and grants to develop or improve essential public services and facilities in communities across rural America. Public bodies, non-profit organizations and federally recognized American Indian Tribes can use the funds to construct, expand or improve facilities that provide health care, education, public safety, and public services. Projects include fire and rescue stations, village and town halls, health care clinics, hospitals, adult and child care centers, assisted living facilities, rehabilitation centers, public buildings, schools, libraries, and many other community-based initiatives. Financing may also cover the costs for land acquisition, professional fees, and purchase of equipment.

The benefit for USDA is generally below market rate interest, along with the potential to borrow on a 40-year term. Based on the statutory limit noted above, total borrowing would be limited to \$1.2 million.

Public Project Revenue Bonds

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.

A revenue bond issue is similar to a bank loan. Using an EDA, the EDA would lease the facility to the Fire Department, pledging the rent revenues as the payment to the bond. The Fire Department would levy the required bond payment through the service contracts with the local units of government. Sometimes additional security is needed to find a buyer for the bonds, such as a mortgage on the facilities and/or a pledge of other revenues of the EDA, including the modest tax levy EDA's are permitted to levy. The benefits to the lease option is no uncertainty in borrowing and no 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. Revenue bonds are not general obligations of the city, which cause higher issuance and interest costs. The lease may also require an annual appropriation clause, which essentially requires the Fire Department to annual appropriate funds for the payment of the obligation.

To finance the construction of the new fire hall public project revenue bonds, the City has one of following options:

1. Formally 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.
2. Work with Douglas County Housing and Redevelopment Authority to issue the bonds.
3. Work with the Lakes Area Economic Development Authority to issue the bonds.

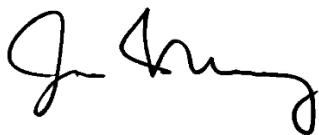
Preliminary Recommendations:

Currently the total project costs greatly exceed the City's CIP statutory principal and interest limits. This prohibits the City from using General Obligation Capital Improvement Bonds to issue this debt. With GO Special Election Bonds, depending on net debt levy determination, these bonds may also limit the city's ability to finance the new fire hall. This leaves public project revenue bonds as the sole option.

Unfortunately, I am unable to attend the Council's meeting on January 12th due to another commitment. I am hopeful I could meet with the taskforce or a special meeting with Council in the near future to keep the discussion moving forward.

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

Respectfully,

A handwritten signature in black ink, appearing to read 'Jason Murray', with a stylized, cursive script.

Jason Murray, Associate
jason@daviddrown.com