



## **STAFF REPORT**

DATE: June 15, 2021

**REGULAR**

**AGENDA ITEM:** Approving the CIP Plan and Authorizing the Issuance of the CIP Bonds

**SUBMITTED BY:** Sam Magureanu, Finance Director

**REVIEWED BY:** Kristina Handt, City Administrator

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### **BACKGROUND:**

The CIP Act (Minnesota Statutes, Section 475.521), allows cities to issue municipal bonds to finance capital improvements consisting of city halls, public works, and public safety facilities. The City Council has included in the 2021-2025 CIP for this year, with funding proposed to come from bonding, the acquisition, construction and equipping of a new city hall, fire station, law enforcement facility and public works addition. This project also includes the acquisition of the real property located at 3880 Laverne Avenue N. and 39th Street in the City from the Economic Development Authority of the City of Lake Elmo, Minnesota (the “EDA”) pursuant to the redemption and refunding of the EDA’s Taxable Public Project Lease Revenue and Limited Tax Bonds, Series 2018A.

The City is required by statute to hold a public hearing on the CIP bond before issuing them. After the staff presentation, the council should open the public hearing. A notice of the public hearing was published in the May 28, 2021 edition of the Stillwater Gazette.

### **ISSUE BEFORE COUNCIL:**

Should the Council authorize the issuance and sale of up to a maximum of \$15,000,000 CIP and CIP Refunding Bonds, as part of the Series 2021A?

### **PROPOSAL DETAILS/ANALYSIS:**

Tammy Omdal from Northland Securities is present at the meeting to answer any questions you may have on the CIP plan which is included in your packet and will be presented at the meeting.

The current proposed not to exceed bond sizing is \$15,000,000. This amount could be reduced after final bids but cannot be increased. For this reason the staff has proposed a slightly higher bond than previously discussed for planning purposes. The bid award for the city hall, fire station, law enforcement facility and public works addition is scheduled at the November 2<sup>nd</sup> meeting.

### **FISCAL IMPACT:**

On page nine appendix A of the CIP plan, the portion of the CIP bond proceeds is broken down. The total cost of the 2021 CIP project is estimated not to exceed \$16,000,000. Again this project cost could decrease but not increase without requiring the city to hold another public hearing. At the workshop session on May 11<sup>th</sup>, 2021, city council has reviewed and approved the city staff proposal for financing of the CIP project, which included: 65/25/10 (General Fund/Water/Sewer) with the water and sewer cash contributions,

waiving WAC, SAC and connection charges, waive building and planning permit fees and applying the city facilities fund balance of approximately \$95,000.

**OPTIONS:**

- 1) Approve Resolution No. 2021-066
- 2) Amend and then Approve Resolution No 2021-066
- 3) Do not authorize the issuance of CIP bonds

**RECOMMENDATION:**

***Motion to approve Resolution No. 2021-066: A Resolution Authorizing Issuance of the CIP Bonds not to exceed 15,000,000 as part of the Series 2021A.***

**ATTACHMENTS:**

- CIP Plan
- Resolution No 2021-066

2021 through 2025

Five-Year Capital Improvement Plan for the

City of Lake Elmo, Minnesota

Adopted June 15, 2021

City of Lake Elmo, Minnesota

Five-Year Capital Improvement Plan

2021 through 2025

**I. INTRODUCTION**

In 2003, the Minnesota State Legislature adopted a statute (Minnesota Statutes, Section 475.521, referred to herein as the “CIP Act”) that allows cities to issue municipal bonds under a capital improvement plan without the usual referendum requirement (except for the so-called “reverse referendum” described in Section III). The CIP Act applies to capital improvements consisting of city halls, public works, and public safety facilities. The 2005 Legislature added towns to the meaning of a municipality and town halls and libraries 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 and are not governed by this plan.

As part of the authorization process to issue capital improvement plan bonds, the CIP Act requires municipalities to prepare a five-year capital improvement plan that includes information specified in the statute, and different from the information that municipalities often provide in a more detailed “budget CIP.” This document, therefore, is the “bond CIP” intended to supplement the “budget CIP” to the meet the specific requirements of the CIP Act

**II. PURPOSE**

A capital improvement 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, which has a useful life of 5 years or more. For the purposes of Minnesota

Statutes, Section 475.521, capital improvements do not include light rail transit or related activities, parks, road/bridges, administrative buildings other than city or town hall, or land for those facilities. However, this plan includes certain additional capital improvements beyond the scope of that statute. A Capital Improvement Plan (CIP) is a document designed to anticipate Capital Improvement expenditures and schedule them over a five-year period so that they may be purchased in the most efficient and cost effective method possible. A CIP allows the matching of expenditures with anticipated income. As potential expenditures are reviewed, the municipality considers the benefits, costs, alternatives and impact on operating expenditures.

The City of Lake Elmo, Minnesota (the “City”) believes the capital improvement process is an important element of responsible fiscal management. 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. This coordination of capital expenditures is important to the City in achieving its goals of adequate physical public assets, preservation of public assets and sound fiscal management. In these financially difficult times good planning is essential for the wise and prudent use of limited financial resources.

The Capital Improvement Plan is designed for periodic updates. In this manner, it becomes an ongoing fiscal planning tool that continually anticipates future capital expenditures and funding sources.

### **III. THE CAPITAL IMPROVEMENT PLANNING PROCESS**

The process begins with analysis of the City’s five-year capital improvement needs and funding sources. The City may solicit input from citizens and other governmental units at an early stage, if desired.

The City Council then directs staff or consultants to prepare a plan that sets forth the estimated schedule, timing and details of specific capital improvements by year, together with the estimated cost, the need for the improvement, and the sources of revenue for the improvement. The City Council then holds a public hearing on the CIP, with notice published not more than 30 days and not less than 14 days for the hearing (except as

described below). The Council may either approve the CIP immediately after the hearing or based on input may make revisions and approve the CIP at a later meeting.

The Council must approve the issuance of CIP bonds by a 3/5ths vote of its membership. However, the bonds are subject to a so-called “reverse referendum”. If a petition, signed by voters equal to at least 5% of the votes cast in the City in last general election, is filed with the City Clerk within 30 days after the public hearing regarding the bonds, the bonds may not be issued unless approved by the voters (by a majority of those voting on the question). Further, the maximum debt service in any year on all outstanding CIP Bonds is .16% of the estimated market value of property in the City, using the estimated market value for the taxes-payable year in which the bonds are issued.

After the CIP has been approved and 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, the expenditures for specified capital improvements can be made.

In subsequent years, the process is repeated as expenditures are completed and as new needs arise. Capital improvement planning looks five or more years into the future from the date of the CIP.

#### **IV. PROJECT(S) SUMMARY**

The only capital improvement in the five-year period of this plan (2021 through 2025) currently contemplated to be financed through issuance of general obligation capital improvement plan bonds (referred to as the “CIP Bonds”) is the acquisition, construction and equipping of a new city hall, fire station, law enforcement facility and public works addition, including without limitation the acquisition of the real property located at 3880 Laverne Avenue N. and 39<sup>th</sup> Street in the City from the Economic Development Authority of the City of Lake Elmo, Minnesota (the “EDA”) pursuant to the redemption and refunding of the EDA’s Taxable Public Project Lease Revenue and Limited Tax Bonds, Series 2018A (the “2021 CIP

Project”). The total cost of the 2021 CIP Project is estimated not to exceed \$16,000,000. The CIP Bonds are proposed to be issued, in a principal amount not to exceed \$15,000,000 specifically for the CIP portion of a larger issuance of the City’s General Obligation Improvement and CIP Bonds, Series 2021A (the “2021 Bonds”).

Any additional expenditures for 2021 and expenditures for 2022 through 2025 can be found in the City’s existing annual budget capital improvement plan.

The CIP Act requires the City Council to consider eight factors in preparing the CIP:

1. Condition of the City’s existing infrastructure, including projected need for repair or replacement.
2. Likely demand for the improvement.
3. Estimated cost of the improvement.
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 improvements.
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 acquisition, construction and equipping of the 2021 CIP Project through the issuance of the CIP portion of the 2021 Bonds. The findings are as follows:

### **Conditions of City Infrastructure and Need for the 2021 CIP Project**

The existing city hall, fire station, and law enforcement facility are outdated and deteriorating and in need of replacement. The city hall offices are located in a building that was built as a commercial facility and not designed for municipal purposes. The current council chambers lack updated technology and adequate space for the public. The public works facility does

not provide adequate separation of working areas, office areas, break room and training space.

### **Demand for Project**

Rapid development of the City necessitates construction of adequate public buildings to provide necessary public services.

### **Estimated Cost of the Project**

The total cost of the 2021 CIP Project is estimated not to exceed \$16,000,000. The estimated maximum par amount of the CIP portion of the 2021 Bonds is \$15,000,000 which amount is sufficient to pay project costs and issuance costs for the CIP portion of the 2021 Bonds.

Additional information and details on all of the City's capital projects can be found in the City's annual budget capital improvement plan document. Not all capital project costs will be financed with CIP Bonds – Currently only the 2021 CIP Project is proposed to be financed using CIP Bonds.

### **Availability of Public Resources**

The GO CIP Bonds will be paid with ad valorem property taxes and will be secured by the City's full faith and credit.

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

The issuance of GO CIP Bonds is the most cost-effective option for the City among the limited other options available. The GO CIP Bonds will provide interest cost savings compared to the EDA's existing financing for acquisition of the real property.

### **Operating Costs of the Proposed Improvements**

It is expected that ongoing operating expenses will increase from recent years given the increased space. Development of the new facility and addition include identifying energy efficient mechanical and lighting systems and the exploration of renewable energy options.



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

The new facility will house multiple functions of the City's government, including general administration and finance, building and planning departments, as well as the City Council chambers and a community room. The new facility will also include a centralized fire station and law enforcement space for the Washington County Sheriff's office. The City seeks opportunities to share governmental services with other local government entities when appropriate.

### Level of Overlapping Debt

<i>Issuer</i>	<i>2020/2021</i>				
	<i>2020/2021</i>	<i>Tax</i>	<i>Percentage</i>	<i>Outstanding</i>	<i>Taxpayers'</i>
	<i>Tax</i>	<i>Capacity</i>		<i>General</i>	
	<i>Capacity</i>	<i>Value</i>		<i>Obligation</i>	
	<i>Value<sup>(1)</sup></i>	<i>in City<sup>(1)</sup></i>	<i>in City</i>	<i>Debt</i>	<i>of Debt</i>
Washington County	\$ 363,058,143	\$22,273,817	6.14%	\$113,905,000 <sup>(2)</sup>	\$ 6,993,767
ISD No. 622 (North St. Paul-Maplewood-Oakdale)	114,231,595	5,653,463	4.95	355,625,000 <sup>(3)</sup>	17,603,437
ISD No. 832 (Mahtomedi)	28,389,294	621,240	2.19	39,990,000	875,781
ISD No. 834 (Stillwater)	122,730,975	15,999,114	13.04	81,685,000	10,651,724
S. Washington Watershed	163,788,543	2,931,884	1.79	2,665,000	47,704
Valley Branch Watershed	59,234,923	18,606,667	31.41	1,800,000	565,380
Metropolitan Council	4,576,186,304	22,273,817	0.48	8,800,000 <sup>(4)</sup>	42,240
Metro Transit	3,662,962,426	22,273,817	0.61	217,685,000 <sup>(5)</sup>	<u>1,327,878</u>
<i>Total Indirect Debt:</i>				<u>\$ 38,107,911</u>	

- (1) Tax Capacity Value is after tax increment deduction and fiscal disparity adjustments. The 2020/2021 values for Metropolitan Council and Metro Transit are not yet available.
- (2) General obligation debt of \$30,775,000 has been excluded as it is payable from revenues.
- (3) General obligation debt of \$10,302,198 has been excluded as it is annual appropriation debt.
- (4) Metropolitan Council has \$8,800,000 of general obligation debt outstanding as of December 31, 2020. This debt is payable from ad valorem taxes levied on all taxable property within the Metropolitan Taxing District. This amount excludes \$1,279,945,062 of general obligation debt payable from wastewater and sewer revenues, and lease agreements.

Metropolitan Transit has \$217,685,000 of property tax supported general obligation debt outstanding as of December 31, 2020. Transit debt is issued by the Metropolitan Council for public transit operations and is payable from ad valorem taxes levied on all taxable property within the Metropolitan Transit District.

## **V. FINANCING THE CAPITAL IMPROVEMENT PLAN**

The total principal amount for the CIP portion of the 2021 Bonds issue is not to exceed \$15,000,000. This amount represents the maximum principal amount of CIP Bonds that may be issued under this plan and will be applied to finance a portion of the approximately \$16,000,000 estimated cost of the 2021 CIP Project. Principal and interest on the CIP Bonds will be paid through ad valorem property taxes over the term of the CIP Bonds, further shown in **Appendix A**.

In the financing of the Capital Improvement Plan, two significant statutory limitations apply.

1. Under Chapter 475, with few exceptions, municipalities cannot incur debt in excess of 3% of the assessor's estimated market value for the municipality. In the City, the 2020/2021 estimated market value is \$2,075,112,100. Therefore, the total amount of outstanding debt cannot exceed \$62,253,363. As of May 2, 2021, the City has \$2,600,000 subject to the legal debt limit. As such, issuance of the CIP Bonds will be well within the overall statutory debt limit for the City.

2. A separate limitation under the CIP Act is that, without referendum, the total amount of principal and interest in any one year 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 \$3,320,179. The estimated maximum annual principal and interest payments on the CIP Bonds proposed to be issued under this CIP and all other outstanding bonds issued pursuant to Minnesota Statutes, Section 475.521 is approximately \$859,923. As such, debt service on the CIP Bonds will be well within the annual limits under the CIP Act.

Details regarding the proposed terms of the CIP Bonds under this CIP are shown in **Appendix A**. The Bonds will be repaid over a 20-year period. The bond amount will not exceed the maximum principal amount of CIP Bonds referred to above.

**APPENDIX A**  
**ESTIMATED CIP BOND TERMS**

**City of Lake Elmo, Minnesota**

\$10,625,000 G.O. CIP and Refunding Bonds, Portion of Series 2021A

Preliminary Non-BQ Aa1 Rates as of 5/21/21 plus 0.25%

**Total Issue Sources And Uses**

**Dated 10/14/2021 | Delivered 10/14/2021**

	<b>CIP (2018A Refunding)</b>	<b>CIP (City Hall, Fire Station, and Law Enforcement)</b>	<b>Issue Summary*</b>
<b>Sources Of Funds</b>			
Par Amount of Bonds	\$860,000.00	\$9,765,000.00	\$10,625,000.00
Water Fund Cash Contribution	-	3,682,689.00	3,682,689.00
Sewer Fund Cash Contribution	-	1,473,076.00	1,473,076.00
<b>Total Sources</b>	<b>\$860,000.00</b>	<b>\$14,920,765.00</b>	<b>\$15,780,765.00</b>
<b>Uses Of Funds</b>			
Deposit to Project Construction Fund	-	14,730,755.00	14,730,755.00
Deposit to Current Refunding Fund	845,988.75	-	845,988.75
Total Underwriter's Discount (1.000%)	8,600.00	97,650.00	106,250.00
Costs of Issuance	3,783.35	42,958.75	46,742.10
Deposit to Capitalized Interest (CIF) Fund	-	46,161.58	46,161.58
Rounding Amount	1,627.90	3,239.67	4,867.57
<b>Total Uses</b>	<b>\$860,000.00</b>	<b>\$14,920,765.00</b>	<b>\$15,780,765.00</b>

\* CIP portion of planned Series 2021A. All figures are estimated for planning purposes.

## APPENDIX A (Continued)

### ESTIMATED CIP BOND TERMS

#### City of Lake Elmo, Minnesota

\$9,765,000 G.O. Improvement, CIP and Refunding Bonds, Series 2021A

CIP Refunding and CIP (City Hall, Fire Station, and Law Enforcement)

#### Aggregate Debt Service

DATE	CIP (2018A Refunding)	CIP (City Hall, Fire Station, and Law Enforcement)	TOTAL	Fiscal Total
02/01/2022	57,762.68	46,161.58	103,924.26	103,924.26
08/01/2022	4,537.50	77,655.00	82,192.50	-
02/01/2023	69,537.50	512,655.00	582,192.50	664,385.00
08/01/2023	4,391.25	76,676.25	81,067.50	-
02/01/2024	69,391.25	516,676.25	586,067.50	667,135.00
08/01/2024	4,228.75	75,576.25	79,805.00	-
02/01/2025	69,228.75	515,576.25	584,805.00	664,610.00
08/01/2025	4,017.50	74,146.25	78,163.75	-
02/01/2026	69,017.50	519,146.25	588,163.75	666,327.50
08/01/2026	3,773.75	72,477.50	76,251.25	-
02/01/2027	68,773.75	517,477.50	586,251.25	662,502.50
08/01/2027	3,481.25	70,475.00	73,956.25	-
02/01/2028	68,481.25	520,475.00	588,956.25	662,912.50
08/01/2028	3,156.25	68,225.00	71,381.25	-
02/01/2029	68,156.25	523,225.00	591,381.25	662,762.50
08/01/2029	2,782.50	65,608.75	68,391.25	-
02/01/2030	72,782.50	525,608.75	598,391.25	666,782.50
08/01/2030	2,327.50	62,618.75	64,946.25	-
02/01/2031	72,327.50	527,618.75	599,946.25	664,892.50
08/01/2031	1,820.00	59,247.50	61,067.50	-
02/01/2032	71,820.00	534,247.50	606,067.50	667,135.00
08/01/2032	1,260.00	55,447.50	56,707.50	-
02/01/2033	71,260.00	535,447.50	606,707.50	663,415.00
08/01/2033	647.50	51,247.50	51,895.00	-
02/01/2034	70,647.50	541,247.50	611,895.00	663,790.00
08/01/2034	-	46,715.00	46,715.00	-
02/01/2035	-	546,715.00	546,715.00	593,430.00
08/01/2035	-	41,715.00	41,715.00	-
02/01/2036	-	546,715.00	546,715.00	588,430.00
08/01/2036	-	36,538.75	36,538.75	-
02/01/2037	-	556,538.75	556,538.75	593,077.50
08/01/2037	-	31,078.75	31,078.75	-
02/01/2038	-	561,078.75	561,078.75	592,157.50
08/01/2038	-	25,381.25	25,381.25	-
02/01/2039	-	565,381.25	565,381.25	590,762.50
08/01/2039	-	19,441.25	19,441.25	-
02/01/2040	-	569,441.25	569,441.25	588,882.50
08/01/2040	-	13,253.75	13,253.75	-
02/01/2041	-	578,253.75	578,253.75	591,507.50
08/01/2041	-	6,756.25	6,756.25	-
02/01/2042	-	581,756.25	581,756.25	588,512.50
<b>Total</b>	<b>\$935,610.18</b>	<b>\$11,871,724.08</b>	<b>\$12,807,334.26</b>	<b>-</b>

#### Par Amounts Of Selected Issues

2021A G-CIP (2018A Refunding)	860,000.00
-CIP (City Hall, Fire Station,	9,765,000.00
<b>TOTAL</b>	<b>10,625,000.00</b>

Aggregate | 5/24/2021 | 12:29 PM

**RESOLUTION NO. 2021-066**

**RESOLUTION APPROVING  
A CAPITAL IMPROVEMENT PLAN AND  
GIVING PRELIMINARY APPROVAL TO THE ISSUANCE OF CAPITAL  
IMPROVEMENT BONDS**

BE IT RESOLVED by the City Council (the “Council”) of the City of Lake Elmo, Minnesota (the “City”) as follows:

**Section 1.     Background.**

1.01. The City is authorized under Minnesota Statutes, 475.521 (the “Act”) to prepare a capital improvement plan and carry out programs for financing certain capital improvements. The City may issue general obligation bonds pursuant to the Act to finance the cost of capital improvements described in the plan.

1.02. Before the approval of the Plan and issuance of any general obligation bonds under the Act, the City is required to hold a public hearing on the plan and issuance of the bonds.

1.03. Pursuant to the Act, the City has caused to be prepared a five-year capital improvement plan (the “Plan”), which describes certain capital improvements in the City for the years 2021 through 2025.

1.04. The City has determined that it is in its best interests to give preliminary approval to the issuance and sale of capital improvement bonds pursuant to the Act (the “Bonds”), in one or more series an aggregate amount not to exceed \$15,000,000 (in addition to amounts issued to finance other capital improvements under the Plan) to finance a portion of the capital improvements set forth in the Plan including without limitation capital improvements related to the acquisition, construction and equipping of a new city hall, fire station, law enforcement facility and public works addition.

1.05. On this date, the Council held a public hearing on the Plan and the issuance of the Bonds, after publication in the City’s official newspaper of a notice of public hearing at least 14 days but no more than 28 days before the date of the public hearing.

**Section 2.     Plan Approved.**

2.01. The Council finds that the Plan will provide for certain capital improvements which serve the interests of the City as a whole.

2.02. The Plan is approved in the form on file with the City Administrator.

Section 3.     Bonds Authorized.

3.01. The City hereby gives preliminary approval to the issuance of Bonds in one or more series an aggregate amount not to exceed \$15,000,000 to finance a portion of the capital improvements set forth in the Plan including without limitation capital improvements related to related to the acquisition of the real property located at 3880 Laverne Avenue N. and 39th Street in the City from the Economic Development Authority of the City of Lake Elmo, Minnesota (the “EDA”) pursuant to the redemption and refunding of the EDA’s Taxable Public Project Lease Revenue and Limited Tax Bonds, Series 2018A, and the construction and equipping thereon of a new city hall, fire station, law enforcement facility and public works addition and costs of issuance of the Bonds, subject to further details regarding the sale of the Bonds to be set forth in a resolution to be considered by the City Council at a subsequent meeting.

3.02. If a petition requesting a vote on the issuance of the Bonds, signed by voters equal to 5% of the votes cast in the last municipal general election, is filed with the City Clerk within 30 days after the date of the public hearing, the City may issue the Bonds only after obtaining approval of a majority of voters voting on the question at an election.

3.03. Pursuant to Minnesota Statutes, Section 462.356, subd. 2, the Council, by at least a two-thirds vote of all of its members, finds that the Plan and the improvements to be financed with the Bonds do not impact and do not have a relationship to the City’s comprehensive plan; the Plan and improvements are consistent with the City’s comprehensive plan; therefore, the Council dispenses with the requirements of Minnesota Statutes, Section 462.356, subd. 2 relating to planning commission review of the Plan and the improvements.

3.04 City staff are authorized and directed to take all other actions necessary to carry out the intent of this resolution.

Approved this 15th day of June, 2021 by the City Council of the City of Lake Elmo, Minnesota..

CITY OF LAKE ELMO, MINNESOTA

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Mayor

ATTEST:

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City Clerk