

SUPPLEMENTAL PACKET

Meeting Date April 25, 2019

Council Memo

To: Mayor Palmquist and Members of the City Council
From: Ron Moorse, City Administrator
Date: April 22, 2019
Re: Financial Review for Downtown Project and River Road Sewer Line Replacement Project

The following is an explanation of a funding option for the pay-off of the Downtown Village Improvement Project Temporary Bonds in April of 2020, as well as a funding option for the River Road Sewer Line Replacement Project.

Pay-Off of Temporary Bonds

There are \$1.98 million of temporary bonds outstanding that have been used to provide cash flow for the Downtown Project. The temporary bonds need to be paid off in April of 2020. Due to both a project funding gap and the receipt of two major revenue sources spread over the next six years, a recommended funding option for the pay-off of the temporary bonds is to use a new bond issue with a term of approximately six years.

Project Funding Gap

Significant expense items causing expenditures to exceed the amount planned include unforeseen additional costs related to addressing issues related to the Indian Mound, legal costs related to assessment appeals, and additional costs for installing sewer lines to serve Pennington Avenue. There remain two significant expenditure items that could increase the funding gap. These items include four outstanding appeals of special assessments related to the Downtown Project, and the condemnation process currently underway to determine the value of easements acquired from three properties for the Downtown Project.

Delayed Revenues

While the vast majority of project expenditures have been incurred, two major sources of revenues will not be fully received for several years. These are the \$95,000 levy for the City's match of the DNR grant, and the remaining six years of the grant payments from the Valley Branch Watershed District. The City established a levy of \$95,000 per year for ten years to fund the required City match for the DNR grant. By the end of 2019, the levy will have been in place for eight years. The levy will then continue for two more years – through 2021.

The Valley Branch Watershed District agreed to provide a grant of \$500,000 to assist in the funding of the Downtown project. The grant is to be paid over a ten year period, with annual payments of \$50,000. The remainder of the grant will be received over the next six years – through 2025.

Because the two sources of delayed revenues involve large revenue amounts that will not be received for up to six years, it is not possible to internally fund the pay-off of the temporary bonds. For this reason, staff is recommending the Council consider a bond issue to fund the pay-off. A substantial amount of the funding for the debt service on the new bonds would then be the two sources of delayed revenues.

Funding Sources to Pay Off the Temporary Bonds

In 2016, a \$70,000 debt service levy was initiated in anticipation of the possible need for supplemental funding, in addition to the special assessment funding, to pay the debt service on the Public Facilities Authority (PFA) low interest loans, or for the possible need to address a funding gap for the Downtown Project. It now appears that the special assessment revenues to be received are sufficient to pay the PFA loan debt service, which could

enable the in-place debt service levy be used to pay the debt service on a new bond issue. In addition, there is a \$37,000 levy currently in-place and used to pay the interest on the temporary bonds. If a longer term bond issue is used to pay off the temporary bonds, both the \$70,000 levy and the \$37,000 levy would be available to pay the debt service on the bond issue.

In addition, as explained above, the City will receive \$50,000 per year for the next six years from the Valley Branch Watershed District as the annual payments remaining on the \$500,000 grant. The ten-year \$95,000 levy mentioned above will also continue through 2021. These revenues would also be available to pay the debt service on a bond issue.

Funding for River Road Sewer Line Replacement Project.

Assuming a cost of \$350,000 for the River Road Sewer Line Replacement Project, one option for funding the Project would be to extend the term of the bond issue for the pay-off of the Temporary Bonds from six years to ten years. This would provide sufficient funding to pay the cost of the sewer line replacement project without increasing the existing debt service tax levies.

Bond Issue Options

Staff has requested the City's Bond Consultant to prepare an amortization schedule for a bond issue to pay off the temporary bonds over the shortest period possible without increasing the tax levy, and a larger bond issue to also fund the River Road Sewer Line Replacement Project. It appears that the bond issue to pay-off the Temporary Bonds, including addressing the Downtown Project funding gap, can be limited to a six-year term without increasing existing debt service tax levies. It also appears that the larger bond issue to include the funding of the River Road sewer lines replacement could be limited to a ten-year term without increasing the existing debt service levies. The amortization schedules will be provided at the work session.