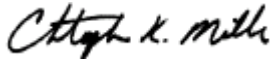


ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: 10/17/11
Item No.: 13 . a

Department Approval



City Manager Approval



Item Description: Continue Discussion on the Use of the City's Port Authority for the Purposes of Financing the Construction of a new Fire Station and Park Improvements

BACKGROUND

At the October 10, 2011 City Council meeting, the Council received Staff's recommendation to utilize the City's Port Authority to finance the construction of a new fire station and park improvements. During this meeting, the Council indicated a desire to learn more about the City's Port Authority powers before taking any formal action. Formal action is scheduled for consideration at the October 24, 2011 Council Meeting.

Specifically, the Council made several inquiries including:

- ❖ Will the Port Authority be a separate body, be the Council itself, or will the Council simply be exercising the City's Port Authority powers?
- ❖ Can the City choose to hold a public hearing on the use of the Port Authority even if the Statutes don't require it?
- ❖ Do projects financed with bonds issued under the Port Authority require the use of best-value contracting?

Mary Ippel, from the law firm of Briggs & Morgan, serves as the City's Bond Counsel. She will be present at the meeting to address these and any other inquiries. She will also be attending the Council meeting on October 24th.

POLICY OBJECTIVE

Enabling the City's Port Authority to finance the construction of a new fire station and park improvements is consistent with the goals established by Imagine Roseville 2025, and prior Council directives.

FINANCIAL IMPACTS

An \$8 million bond for the Fire Station is expected to have an annual impact of approximately \$36, or \$3 per month for a typical home. The annual debt service would be approximately \$735,000.

A \$19 million (overall) bond for Park Improvements is expected to have an annual impact of approximately \$70, or \$6 per month for a typical home. The annual debt service would be approximately \$1,430,000.

30 **STAFF RECOMMENDATION**

31 Staff recommends the Council support the use of the City's Port Authority for the purposes of financing the
32 construction of a new fire station and park improvements.

33 **REQUESTED COUNCIL ACTION**

34 For information purposes only. No formal action is required.
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Prepared by: Chris Miller, Finance Director

Attachments: A: Legal opinion regarding various bond financing strategies including the City's Port Authority powers

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September 29, 2011

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VIA E-MAIL

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Re: Park Improvements and Fire Station

Dear Bill and Chris:

The City of Roseville is proposing to undertake park improvements consisting primarily of the redevelopment of existing parks and the construction of a new fire station to replace an aged fire station located adjacent to the city hall.

Under existing law there are a number of financing options for the park and fire hall projects. For purposes of this letter I will separate by project the existing statutory authority for financing these projects.

1. Park Improvements. The statutory authority for financing park improvements are as follows:

(a) General Obligation Improvement Bonds. Pursuant to Minnesota Statutes, Chapter 429, park improvements are considered public improvements. In order to issue General Obligation Improvement Bonds, pursuant to Minnesota Statutes, Chapter 429, not less than 20% of the costs of the park improvements must be assessed against benefited property owners. Both an improvement hearing and assessment hearing are required under Chapter 429. The City must determine that the market value of the property proposed to be assessed will increase by an amount not less than the amount of the special assessment. Because it is difficult to show market value increases on properties based on the construction of park improvements the statutory authority to issue General Obligation Improvement Bonds is not a viable option.

(b) General Obligation Abatement Bonds. Minnesota Statutes, Chapter 469 grants the City the authority to issue General Obligation Abatement Bonds. The City Council must determine that the granting of an abatement is in the public interest because it will provide or help acquire or construct public facilities or help provide access to services for residents of the

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City or provide public infrastructure. Pursuant to Chapter 469 the City Council must hold a public hearing and publish a notice at least once more than 10 days but less than 30 days before the hearing. The notice must indicate that the City will consider granting a property tax abatement, identify the property for which an abatement is under consideration and the total estimated amount of the abatement. The maximum principal amount of the bonds may not exceed the estimated sum of the abatement for the properties for the years authorized. The abatement terms cannot exceed 15 years. If the county or school district is asked to participate in the abatement and if either declines to participate, the term of the abatement may extend to 20 years. The park improvements are scheduled to be constructed over a 5-year period. The City must determine based on the construction schedule and location of the park improvements the specific properties to be abated and the specific abatement years. The 15-year abatement will vary by parcels depending on the location of the park improvements and the date of construction of the improvements. This will involve a significant effort on the part of City staff to determine the abatement properties and the timing of the abatement years. Tax abatement is actually a misnomer. The property owners of the abated properties will pay their real estate taxes in the normal course. The City will add to its levy amount the total estimated amount of all current year abatements granted. The bonds are in essence paid from a city-wide ad valorem tax. In any year the total amount of property taxes abated by a city may not exceed 10% of the net tax capacity of the city for the taxes payable in the year to which the abatement applies or \$200,000 whichever is greater.

(c) General Obligation Bonds. In 1987 special legislation was adopted that provided that the governing body of the City of Roseville may exercise all of the powers of a port authority provided by Minnesota Statutes, Section 469.048 to 469.068. Pursuant to the port authority powers the City of Roseville has the legal authority to issue General Obligation Bonds. Prior to the issuance of the General Obligation Bonds it is necessary for the City of Roseville to adopt an ordinance identifying the issuance of the General Obligation Bonds. The port authority law also grants the City the powers of a housing and redevelopment authority and the powers of a port authority. In 1991 the City of Roseville utilizing the housing and redevelopment authority powers and the port authority powers established a redevelopment project area and industrial development district (the "Project Area"). The proposed park improvements and fire station are within the Project Area. The redevelopment plan for the Project Area as adopted in 1991 specifically authorized the City "to construct public facilities such as street traffic signals, sanitary sewer, storm drainage including the separation of storm and sanitary sewers, water lines, parking, parks and open space, public attraction centers and other such facilities as it deems desirable and necessary for the implementation of a project." In addition the housing and redevelopment authority law specifically authorizes a city to cause parks, playgrounds, recreational, community, education, water, sewer or drainage facility or any other works which it might undertake to be furnished adjacent to or in connection with projects. Since the

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redevelopment plan was adopted twenty years ago it is prudent for the City to hold a public hearing after publishing a 10-day notice and update the redevelopment plan to reflect the City's goals and objectives with respect to these projects.

2. Construction of the Fire Station. The following are the existing statutory authorities for financing a fire station.

(a) Housing and Redevelopment Authority Revenue Bonds. Pursuant to Minnesota Statutes Chapter 469, the Housing and Redevelopment Authority of the City of Roseville (the "HRA") is authorized to issue revenue bonds to construct public facilities such as a fire station. The fire station is leased to the City pursuant to a Lease with Option to Purchase Agreement (the "Lease"). The annual lease payments to be paid by the City to the HRA under the Lease are in an amount sufficient to pay the debt service on the HRA's revenue bonds. The lease payments are pledged to the payment of the HRA's revenue bonds. As required by state law, the Lease must contain the annual right of the City to nonappropriate and terminate the Lease at the end of any fiscal year. Any taxes levied to pay the lease payments are considered a special levy and outside of any applicable levy limits because the lease payments are pledged to the payment of the revenue bonds issued by the HRA. Because the bonds issued by the HRA are revenue bonds, the revenue bonds bear a higher interest rate than General Obligation Bonds issued by the City. Generally speaking the interest on the revenue bonds are approximately 25 basis points higher than City general obligation bonds. The market at the time the revenue bonds are sold determines the actual interest rate differential.

(b) General Obligation Capital Improvement Bonds. Pursuant to the statutory authority contained in Minnesota Statutes, Section 475.521, the City is authorized to construct a city hall, library, public safety facility and public works facility and issue General Obligation Capital Improvement Bonds (the "CIP Bonds"). Prior to the issuance of the CIP Bonds a capital improvement plan covering a 5-year period must be prepared by the City. A public hearing on the capital improvement plan and the issuance of CIP Bonds must be held by the City and notice must be published at least 14 but not more than 30 days before the date of the hearing. The notice must contain the City's intention to issue the CIP Bonds and the adoption of the capital improvement plan. A city can only issue the CIP Bonds after obtaining approval of a majority of the voters voting on the question of issuing the bonds, if a petition requesting a vote on the issuance is signed by voters equal to 5% of the votes cast in the municipality in the last general election and is filed with the clerk within 30 days after the public hearing.

(c) General Obligation Bonds. Using the port authority powers granted to the City as described in paragraph 1(c) above the City has the authority to issue General Obligation Bonds to finance the fire station. The issuance of the General Obligation Bonds for the fire station is subject to the same parameters outlined in 1(c) above.

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In summary, the above identifies the various statutory authorities for the issuance of bonds to finance the park and fire station projects. Issuing General Obligation Bonds utilizing the port authority powers is the easiest procedural process for the City. Timing may be of concern because the proposed projects are in the approximate amount of \$30,000,000. Under federal law the City is granted the ability to designate up to \$10,000,000 of governmental purpose bonds a year as bank qualified bonds. Bank qualified bonds generally bear a lower interest rate than non-bank qualified bonds. The City has not used any of its bank qualified authority for the year 2011. Generally speaking the interest rate of bank qualified bonds is 25 basis points lower than on non-bank qualified bonds. The market at the time the bonds are issued determines the actual interest rate differential. Since 25 basis points could be a significant amount of savings on a \$10,000,000 bond and because interest rates are at historic lows the City may desire to issue bank qualified bonds in 2011.

If you have any other questions, please do not hesitate to contact me.

Very truly yours,



Mary L. Ippel

MLI/jmc