

City of Ramsey
Agenda
City Council Work Session
Tuesday July 9, 2013
5:30 p.m.
Lake Itasca Room 7550 Sunwood Drive NW

- 1. Call to Order**
- 2. Topics for Discussion**
- 3. Future Topics for Discussion - *See Attached Calendar***
- 4. Mayor/Council/Staff Input**
 1. Issuance of Capital Equipment Certificates for 2013 Capital Equipment Purchases
 2. Review of long-term street maintenance and reconstruction financing options and cost estimate assumptions.
 3. Discussion Regarding the Economic Development Manager Position
- 5. Adjournment**

CC Work Session

4. 1.

Meeting Date: 07/09/2013**By:** Diana Lund, Finance

Title:

Issuance of Capital Equipment Certificates for 2013 Capital Equipment Purchases

Background:

On December 11, 2012, City Council adopted the 2013 General Fund Budget and Levy. Included in the budget was \$463,000 for capital equipment which included the second year funding for a fire tanker truck that council gave official authorization for purchasing at the June 25, 2013 City Council meeting. The first half of the fire tanker truck was included in the 2012 General Fund budget.

Overall, the amount of capital that needs to be funded for 2013 is \$594,000 (See capital listing that includes full funding of fire tanker truck). The funding source for the purchase of these capital items was proposed to be the issuance of capital equipment certificates. The issuance of certificates not only allows the city to take advantage of lower interest rates, but it will allow the Equipment Revolving Fund time to rebuild and preserve the fund for future needs. The last time that the city issued capital equipment certificates was in 2007, with 2013 payable the last year equipment certificate debt was levied.

The amount of certificates to be issued to fund the capital items is proposed to be \$635,000 which covers the principal costs of the capital items and underwriting costs. The certificates would be for a ten-year time frame and be levied to the property tax starting in year 2014. The annual levy from the debt issuance would be approximately \$76,000 based on today's interest rates.

Interest rates have been increasing due to recent comments by the Federal Reserve in regard to the economy. Before the final sale of certificates is brought to the city council, rates will be monitored to take advantage of when rates seem to be stabilizing. The sale needs to occur by year end 2013.

Another factor that will affect the city's interest rate is the refinancing by PACT Charter School of their current debt. The original issue was a conduit debt through the city and they are proposing to refinance via conduit debt once again. This request will be brought to the City Council in late July/early August. The net affect of this refinancing is that their debt issue will be over \$10,000,000. As this is conduit debt, this total debt is added to the city's total debt issuance for the year (capital equipment certificates) and will push the city pass the bank-qualified debt limit. In other terms, the city will be considered non-bank qualified (debt issued in excess of 10M in any calendar year) and will have to pay higher interest rates. PACT Charter School is aware that they will make the city non-bank qualified for their equipment certificate issue and will be responsible for paying the extra interest cost via a reimbursement back to the city.

Notification:

Paul Donna from Northland Securities, the City's financial consultant, will be present to discuss the finance plan in regards to the issuance of \$635,000 Capital Equipment Certificates.

The proposed effect on the city's tax rate is attached. The city is under levy limits for year 2014 and the numbers reflect the city's maximum levy allowed - General Fund and Economic Development Authority fall under levy limits. 2014 budget is in preliminary stages and will be brought to the city council in a near-future date.

Recommendation:

Staffs recommendation is to authorize issuance of capital equipment certificates and to bring the sale of certificates forward to a future City Council meeting when interest rates have stabilized.

Funding Source:

Capital Equipment Certificates will fund General Fund Capital Equipment purchases.

Council Action:

Approve/Deny issuance of Capital Equipment Certificates for the funding of General Fund Capital Equipment included in the 2013 adopted General Fund Budget and the first-half of the fire tanker truck included in the 2012 General Fund Budget.

This item is on the consent agenda of the July 9, 2013 meeting. This item asks for authorization to issue only and not the actual sale of the certificates.

Attachments

Finance Plan for Issuance of Capital Equipment Certificates

Capital Equipment Listing

Equipment Fund Cash Flow

2014 Proposed Levy with Equipment Certificates

Form Review

Inbox

Kurt Ulrich

Form Started By: Diana Lund

Reviewed By

Kurt Ulrich

Date

07/03/2013 02:19 PM

Started On: 06/27/2013 11:08 AM

Final Approval Date: 07/03/2013

FINANCE PLAN SUMMARY

FOR

CITY OF RAMSEY, MINNESOTA

\$635,000

**GENERAL OBLIGATION EQUIPMENT CERTIFICATES
OF INDEBTEDNESS, SERIES 2013A**

NORTHLAND  SECURITIES

45 South 7th Street
Suite 2000
Minneapolis, MN 55402
612-851-5900 800-851-2920

July 9, 2013

City of Ramsey, Minnesota
\$635,000
General Obligation Equipment Certificates of Indebtedness,
Series 2013A

FINANCING OVERVIEW

The Finance Plan we have developed along with City staff contemplates financing for the City's 2013 capital equipment purchases. Funding is proposed to come from the issuance of general obligation equipment certificates. The Certificates will be issued pursuant to Minnesota statutes 475 and 412.301.

The City's total cost of equipment is estimated at \$599,000. The source of funding is General Obligation Equipment Certificates in the amount of \$635,000 which includes the costs of issuing the Certificates. The proposed level debt service structure shown in Exhibit A assumes a current average interest rate of 2.61%. The estimated interest rate assumes the bonds are not "bank qualified" due to the PACT financing later this year.

The total estimated sources and uses are as follows:

Sources & Uses

Dated 09/01/2013 | Delivered 09/01/2013

Sources Of Funds

Par Amount of Bonds	\$635,000.00
Total Sources	\$635,000.00

Uses Of Funds

Total Costs of Issuance	35,250.00
Deposit to Project Construction Fund	599,000.00
Rounding Amount	750.00
Total Uses	\$635,000.00

RELATED CONSIDERATIONS

- *Non-Bank Qualified* - because total tax-exempt debt issued by the City in calendar year 2013 is expected to be more than \$10.0M, the Certificates will not be designated as “bank qualified” obligations pursuant to Federal Tax Law. The impact of this designation may result in slightly higher interest rates. We have adjusted the estimated interest rates accordingly.
- *Arbitrage Compliance* –
 - Project / Construction Fund – All tax exempt issues are subject to federal rebate requirements which require all arbitrage earned to be rebated to the U.S. Treasury. A rebate exemption the City expects to qualify for is the 18 month expenditure exemption because the City expects to purchase the equipment and expend the proceeds within that time period.
 - Debt Service Fund – The City must maintain a bona fide debt service fund for the Certificates or be subject to yield restriction in the debt service fund. A bona fide debt service fund involves an equal matching of revenues to debt service expense with a balance forward permitted equal to the greater of the investment earnings in the fund during that year or 1/12 of the debt service of that year.

The City should become familiar with the various Arbitrage Compliance requirements for this issue. The Resolution explains the requirements in greater detail. We are also available to assist the City in meeting these requirements.

- *Continuing Disclosure* –Although this issue is under \$1,000,000, the City’s outstanding debt exceeds \$10.0M and it is subject to the Securities and Exchange Commission’s continuing disclosure requirements. Northland Securities is prepared to assist the City in this capacity.

EXHIBIT A

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I
12/01/2013	-	-	-	-
12/01/2014	55,000.00	0.750%	17,518.75	72,518.75
12/01/2015	60,000.00	1.050%	13,602.50	73,602.50
12/01/2016	60,000.00	1.400%	12,972.50	72,972.50
12/01/2017	60,000.00	1.750%	12,132.50	72,132.50
12/01/2018	65,000.00	2.100%	11,082.50	76,082.50
12/01/2019	65,000.00	2.400%	9,717.50	74,717.50
12/01/2020	65,000.00	2.650%	8,157.50	73,157.50
12/01/2021	65,000.00	2.900%	6,435.00	71,435.00
12/01/2022	70,000.00	3.150%	4,550.00	74,550.00
12/01/2023	70,000.00	3.350%	2,345.00	72,345.00
Total	\$635,000.00	-	\$98,513.75	\$733,513.75

Levy
1.05%
76,144.69

Date And Term Structure

Dated	9/01/2013
Delivery Date	9/01/2013
First Coupon Date	6/01/2014
First available call date	12/01/2019
Call Price	100.00%

Yield Statistics

Average Coupon	2.6105002%
Net Interest Cost (NIC)	2.9403047%
True Interest Cost (TIC)	2.9542269%
All Inclusive Cost (AIC)	3.6511761%

NORTHLAND SECURITIES

July 2, 2013

Ms. Diana Lund
Finance Director
City of Ramsey
7550 Sunwood Drive NW
Ramsey, MN 55303-5137

RE: General Obligation Equipment Certificates of Indebtedness, Series 2013A

Dear Diana:

In recent years, Congress has enacted legislation seeking to reform financial markets in the wake of the Great Recession. One of the most prominent pieces of legislation is the Dodd-Frank Wall Street Reform and Consumer Protection Act. The implementation of Dodd-Frank has led to a series of regulatory changes governing municipal securities. One objective of the regulations is to promote a clear understanding between issuer and underwriter in negotiated financings.

The City of Ramsey (the "City") has asked Northland Securities to assist you in the issuance of General Obligation Equipment Certificates of Indebtedness (the "Certificates" or the "Issue") by acting as underwriter for the Certificates. Northland has a duty under rules of the Municipal Securities Rulemaking Board (MSRB) to make certain disclosures to the City concerning its role, its compensation, and actual or potential material conflicts of interest. In engaging Northland in this capacity, the City should be aware of the following:

1. Acting as underwriter for the Certificates, Northland will provide advice to the City with respect to the structure, timing, terms, and other similar matters concerning the Certificates. The City is responsible for understanding and assessing the implications of the Certificates.
2. Northland will arrange for the placement or sale of the Certificates in an arm's-length commercial transaction with the City. In this process, Northland is required to deal fairly at all times with both the City and investors. Northland has a duty to assist in placing the Certificates for the City at a fair and reasonable price, but must balance that duty with its duty to place or sell municipal securities to investors at prices that are fair and reasonable.
3. Under MSRB rules, Northland does not have a legal fiduciary duty to the City (unlike a municipal advisor) and is, therefore, not required by federal law to act in the best interests of the City without regard to its own financial or other interests. Northland has financial and other interests that differ from those of the City.
4. Northland's compensation is based on the size of the Issue and is contingent on the closing of the Certificates. The MSRB has identified this means of compensation as presenting a conflict of interest, because it may cause Northland to recommend a transaction that it is unnecessary or to recommend that the size of the transaction be larger than is necessary. It should be noted that the City determined the project costs related to this financing.

45 South 7th Street, Suite 2000, Minneapolis, MN 55402

Main: (612) 851-5900 / Direct: (612) 851-4919 / Email: mhoheisel@northlandsecurities.com

Member FINRA and SIPC

The designation of Northland as placement agent applies solely to this Issue. MSRB regulations allow the City to establish financial advisory or underwriting relationships with Northland for future issues based on the needs of each financing.

We look forward to working with you on this Issue. I would be happy to discuss this letter, our relationship with the City for the Certificates, or other aspects of MSRB rules.

Please acknowledge the receipt of this letter by signing in the space below. At your convenience, return a copy of the signed letter to me.

Sincerely,



Paul Donna
Senior Vice President

Receipt of these disclosures acknowledged by the City.

Date: _____

Name: _____

Title: _____

ITEM #	COST CNTR	NEW/REPLACEMENT CAPITAL OUTLAY		ESTIMATED PURCHASE PRICE	USEFUL LIFE	TOTAL OF PURCH PRC	REPLACE ASSET #	NOTES	ORIGINAL PURCHASE PRICE	OTHER FUND 12/31/XX	Net 2012 FUNDING REQUIRED
		DESCRIPTION	DESCRIPTION								
2013 CAPITAL OUTLAY											
Elections #141											
6580	141	Election Equipment		6,000.00	10	6,000.00					6,000.00
Data Processing #192											
6585	192	Cisco 4510 Core Switch (connects all servers & devices to network)		25,000.00	6	25,000.00		Replaces Cisco 4506 Core Switch			25,000.00
Total Data Processing #192											
				25,000.00		25,000.00			0.00	0.00	25,000.00
GEN GOV'T BLDG #194											
6580	194	Phone System		0.00	10	0.00		Replace old phone-Intertell Axxess	0.00		0.00
Total General Government Buildings #194											
				0.00		0.00			0.00	0.00	0.00
POLICE PROTECTION #211											
6550	211	3 squads & set up		102,000.00	2	102,000.00					102,000.00
Total Police Protection #211											
				102,000.00		102,000.00			0.00	0.00	102,000.00
FIRE #220											
6550	220	Tanker Truck- 2nd year funding (\$300,000 total)		330,000.00	20	330,000.00	500	Repalce 1989 Tanker #21	109,489.00		330,000.00
Total Fire #220											
				330,000.00		330,000.00			109,489.00	0.00	330,000.00
Engineering #301											
6580	301	Scanner		10,000.00	10	10,000.00					10,000.00
6580	301	Colored Plotter/Scanner		20,000.00	10	20,000.00					20,000.00
Total Engineering #301											
				30,000.00		30,000.00			0.00	0.00	30,000.00
PUBLIC Works #311											
6540	311	F350 truck with plow		0.00	10	0.00					0.00
6580	311	AVL System for tracking snowplowing equipment		15,000.00		15,000.00					15,000.00
Total Public Works #311											
				15,000.00		15,000.00			0.00	0.00	15,000.00
PARK & RECREATION #452											
6540	452	Toro Mower		86,000.00	10	86,000.00	643	Replace Unit #643			86,000.00
Total Park & Recreation #452											
				86,000.00		86,000.00			0.00	0.00	86,000.00
TOTAL GENERAL FUND - 2012											
				594,000.00		594,000.00			109,489.00	0.00	594,000.00

EQUIPMENT REVOLVING FUND #234

	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018
FUND BALANCE, Beginning of Year	3,669,695.17	3,609,061.22	3,342,842.56	3,276,236.25	1,780,818.69	1,807,530.97	1,834,643.93	1,862,163.59	1,890,096.05	1,918,447.49
REVENUES:										
Transfers from General Fund:										
Excess Revenue	0.00	0.00	12,973.00	17,926.00	0.00	0.00	0.00	0.00	0.00	0.00
Zayo Fiber			30,000.00	9,519.00						
QCTV Funds			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sale of Fixed Assets			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
First half of fire truck (included in exp transfer in 2012 but will be bought in 2013)			0.00	130,000.00	0.00	0.00	0.00	0.00	0.00	0.00
Prn-Sunfish Commons	11,438.59	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Int-Sunfish Commons	299.56	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Earnings	128,977.87	131,239.16	76,962.75	48,968.44	26,712.28	27,112.96	27,519.66	27,932.45	28,351.44	28,776.71
Total Revenues	140,716.02	131,239.16	119,935.75	206,413.44	26,712.28	27,112.96	27,519.66	27,932.45	28,351.44	28,776.71
EXPENDITURES:										
Capital Outlay:										
Parks CIP										
General Government		26,200.00	16,000.00	57,600.00		0.00	0.00	0.00	0.00	0.00
Fire		17,600.00	32,000.00	136,000.00						
Parks/PW		87,200.00	12,887.81	52,052.00		0.00	0.00	0.00	0.00	0.00
Police		93,850.00	94,600.00	94,600.00		0.00	0.00	0.00	0.00	0.00
Improvements with qctv funds	0.00		31,054.25							
Transfers to General Fund										
Debt Service on Equipment Certificates										
Debt Service on Muni Bldg										
Capital Outlay	201,349.97	50,937.69								
Muni Center Remodel		112,333.26								
Fire Station Generator		9,336.87								
PW Repair parts on sweeper				275,000.00						
2012 Street Maint (Allows TIF 4 to go to Sunwood Dr)				1,086,579.00						
Sunwood Drive Realignment See Above Entry										
Fire Station #2 Rebuild										
Sign Making Equipment										
Total Expenditures	201,349.97	397,457.82	186,542.06	1,701,831.00	0.00	0.00	0.00	0.00	0.00	0.00
Increase (Decrease) in Cash	(60,633.95)	(266,218.66)	(66,606.31)	(1,495,417.56)	26,712.28	27,112.96	27,519.66	27,932.45	28,351.44	28,776.71
FUND BALANCE, End of Year	3,609,061.22	3,342,842.56	3,276,236.25	1,780,818.69	1,807,530.97	1,834,643.93	1,862,163.59	1,890,096.05	1,918,447.49	1,947,224.20

** 2013-2018 Are Shown as Funding From Capital Equipment Certificates

2014 PROPOSED LEVY-TO MEET LEVY LIMITS

	Certified	<u>Fiscal Disp</u>	<u>Local Levy</u>	<u>Estimated 2014 Taxable Value</u>	Tax Capacity
General	7,345,779	1,227,946	6,117,833	16,175,122 **	37.822%
EDA*	136,739	32,479	104,260	16,175,122	0.645%
Bonds	1,062,708 *	383,495	679,213	16,175,122	4.199%
	8,545,226	1,643,920	6,901,306		42.666%

2013 ADOPTED LEVY

	Certified	<u>Fiscal Disp</u>	<u>Local Levy</u>	<u>Taxable Value</u>	Tax Capacity
General	7,248,829	1,211,739	6,037,090	14,741,934	40.952%
EDA*	104,466	24,813	79,653	14,741,934	0.540%
Bonds	644,918	232,729	412,189	14,741,934	2.796%
	7,998,213	1,469,281	6,528,932		44.288%

*Includes the Municipal Center, Fire Station #1 and 2013 Proposed Capital Equipment Certificates

**TIF 2 decertified 12-31-13

CC Work Session

4. 2.

Meeting Date: 07/09/2013

By: Bruce Westby, Engineering/Public Works

Title:

Review of long-term street maintenance and reconstruction financing options and cost estimate assumptions.

Background:

City staff has been evaluating the pavement condition of city streets for a number of years. The results of our evaluations show that a majority of city streets are severely degraded and are in need of maintenance or complete reconstruction. While the pavement sections on certain streets should receive maintenance or be reconstructed sooner than others, almost all city streets will need some form of maintenance or reconstruction over the next 30-plus years.

Based on cost estimates previously developed by staff, maintaining and reconstructing existing city streets at a reasonable level of service, which staff defined as a rating of 7 based on the Pavement Surface Evaluation and Rating (PASER) system, could cost up to \$3 million per year over the next 30 years. Unless the existing funding sources are increased, or new financing options are identified and implemented, the city will not be able to afford to maintain our streets to this level so our streets will continue to degrade, falling further and further into disrepair.

In response to this issue, staff has been researching alternative financing options that would allow the city to adequately fund our long-term street maintenance and reconstruction program needs. Ideally, the desired financing option would allow for the implementation of a funding stream that is dedicated, dependable, and secure. In addition, it should be viewed by taxpayers as being beneficial, equitable and transparent.

Notification:

N/A - No notifications are required in association with this case.

Observations/Alternatives:

Update of Estimated Costs -

Previously, staff had estimated approximately \$3 million would be needed annually to address the city's long-term street reconstruction needs. In conjunction with the 2014 budgeting process, staff is working to refine these estimated annual costs. To do this, several assumptions are being proposed as follows.

1. All city streets are proposed to be maintained and reconstructed "as is" (i.e. costs are being estimated assuming no changes to roadway type (urban versus rural), lane configurations or widths, number or location of turn lanes, pedestrian accommodations, public utilities, etc.
2. Estimated costs are based solely on 2013 construction costs for ease of comparison.
3. A PASER rating of 7 continues to be used as the target rating for our long-term street maintenance and reconstruction program.

If Council is not in agreement with any of these assumptions, it would help staff greatly to know which assumptions should be omitted or modified as soon as possible. This would prevent staff from spending time updating costs based on any assumptions not supported by Council.

Staff had originally proposed to update the estimated costs by developing numerous typical sections for various

combinations of street widths for both urban (curb and gutter and storm sewer) and rural (no curb and gutter with ditches) streets, and by revising pavement section costs for each typical section based on the presence of either clay or sand subgrade sections as determined using known soils data. However, staff recently updated the existing streets database, which contains design information for each street section throughout the city, to ensure the database information is as accurate as possible. By utilizing this database staff can more accurately estimate costs for maintaining and reconstructing each city street section throughout the city, rather than by assigning each street section to the closest typical section design to estimate an average cost per mile to maintain and reconstruct each street segment.

Staff also plans to estimate costs for adding sidewalks, pathways and other pedestrian accommodations along applicable street sections based on the city's current sidewalk and pathway policy for new street construction projects. These costs will also be presented to Council in conjunction with the updated estimated costs for the long-term street maintenance and reconstruction program. Staff also proposes to develop draft language for a policy aimed to address the current lack of direction related to the inclusion or omission of sidewalks and pathways in association with street reconstruction projects. This current lack of direction was briefly discussed by staff during the Public Works Committee meeting on Tuesday, May 22nd. This draft language could then be reviewed by the Public Works Committee prior to requesting Council action on the policy.

Financing Options –

Numerous financing options are available to municipalities to provide funding for long-term street maintenance and reconstruction programs. Over the years, traditional financing options for such projects have included annual budgeting through the general levy, purchasing General Obligation (GO) bonds on a project by project basis, applying funds from our annual Municipal State Aid allotment, and applying special assessments as allowed for under Minnesota Statute Chapter 429. Each option has certain limitations and drawbacks which is making them less and less effective as a means for providing long-term funding.

Many cities are therefore exploring new financing options for funding long-term street maintenance and reconstruction programs. One such financing option that is rapidly gaining traction is the use of franchise fees, which is essentially a tax applied to private utilities that benefit financially from using the public right-of-way to conduct their business. And although this tax is typically passed along to the customer, franchise fees provide a dedicated, dependable, and secure funding stream for long-term street maintenance and reconstruction programs, and taxpayers generally tend to prefer making small payments on a regular basis versus being assessed thousands of dollars all at once.

Other financing options being considered by cities on a more frequent basis include borrowing against or leveraging revenues, including the use of toll charges and public-private partnerships (PPPs). And a number of State Statutes have been adopted in recent years with the intent of allowing cities to use such financing options due to their ability to provide more stable, long-term funding sources.

Attached is a table listing the more common long-term street maintenance and reconstruction financing options being explored by municipalities. Next to each option are listed the pros and cons commonly associated with each. Also attached is chapter 25 from the League of Minnesota Cities Handbook which explains available financing options for city improvements projects. Several slides prepared by Paul Donna with Northland Securities which explain some of the funding options in more detail are also attached.

As demonstrated in the attached table, franchise fees provide the greatest benefit for numerous reasons including their ability to provide a constant, dependable and renewable funding stream, and the fact that they provide a highly transparent funding source allowing taxpayers to better understand the cost they are paying in relation to the benefits received. In addition, fees are collected from property renters as well as owners, and fees are collected from properties regardless of tax status.

Special assessments, while still widely used, have been contested by taxpayers more vigorously in recent years, resulting in significant project delays and/or cancellations which negatively impacts long-term street maintenance and reconstruction programs.

As Council is likely aware, the city of Elk River recently completed a similar analysis to determine the best funding program for their long-term street reconstruction program. In the end, the Elk River City Council adopted the use of franchise fees to fund their street reconstruction program. In addition, they incorporated a rebate program for property owners still paying off their assessments from previous projects. This rebate simply refunds the annual franchise fee amount to each of those property owners over the remainder of their assessment term.

In April, staff emailed a survey questionnaire to other Anoka County cities asking for information on their current funding practices related to their long-term street reconstruction programs. Results from this survey will be presented to Council at the time the formal case for approving a funding program is presented to Council for consideration of action, which staff anticipates will most likely occur on August 13th.

Paul Donna, Senior V.P. with Northland Securities, and Finance Director Lund will be in attendance and can provide more detail on some or all of the financing options, especially as they pertain to the 2014 budgeting process.

Recommendation:

Based on the information presented herein, staff recommends moving away from the use of special assessments as a funding source for our long-term street maintenance and reconstruction program, and instead utilizing franchise fees to supplement MSA, general obligation debt, and General Fund Revenues, to fund this long-term program into the future. If the City Council directs staff to pursue the use of franchise fees, staff will then develop a proposed franchise fee rate schedule for the private utilities utilizing our right of ways to conduct their business.

Funding Source:

Staff recommends utilizing Franchise Fees to fund the city's long-term street maintenance and reconstruction program in the future.

Council Action:

Staff requests Council direction and/or feedback regarding preferred funding options and cost estimate assumptions associated with the city's long-term street maintenance and reconstruction program.

Attachments

[LT Street Funding Table](#)

[LMC Handbook Ch25](#)

[Northland Funding Options](#)

Form Review

Inbox	Reviewed By	Date
Diana Lund	Diana Lund	07/03/2013 12:40 PM
Kurt Ulrich	Kurt Ulrich	07/03/2013 02:38 PM
Form Started By: Bruce Westby		Started On: 07/02/2013 02:35 PM

Final Approval Date: 07/03/2013

Long-Term Street Maintenance and Reconstruction Program Funding Source Pros & Cons

<u>Funding Source</u>	<u>Pros</u>	<u>Cons</u>
General Obligation (GO) Bonds	Dependable, but only as long as city maintains a good rating. Tax write-off.	Increased tax capacity rate. Counts against debt limit.
Franchise Fees	Constant, dependable and renewable funding source. Taxpayer transparency. Payment not reflective of residency, tax status, or ownership status. Reduces levy impacts due to bond interest.	
Special Assessments (State Statute Ch. 429)	Taxpayer transparency (cost versus benefit). Tax write-off.	Petitions can delay or derail projects. Proving benefit can be difficult and can add to project costs.
General Levy (MSA Fund)	City directly controls funds.	Not a constant, dependable or renewable funding source. Not transparent to taxpayers. Levy limit dependent.
MnDOT Municipal State Aid Annual Apportionment		Declining due to waning fuel tax revenues due to erosion by inflation, fewer vehicle miles driven per capita, and use of more fuel-efficient and alternate-fuel vehicles.
Tax Abatement Districts	Taxpayer transparency (cost versus benefit). Most benefitted properties pay.	\$200,000 annual limit. Proving benefit can be difficult and can add to project costs. New TAD created for each project.
Tax Increment Financing		Existing TIF's are soon expiring.
Special Legislation	TBD	TBD

PART VI

FINANCE, BUDGETING, AND DEBT

CHAPTER 25: FINANCING PUBLIC IMPROVEMENTS

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Chapter 25

Financing public improvements

I. Financing and planning overview

[Minn. Stat. § 412.221.](#)

[“Financing Infrastructure Projects”](#)
Minnesota Cities (Aug. 2009, p. 6).

Cities use a variety of funding techniques to construct, maintain, or improve local infrastructure made up of the basic facilities, services, and systems a city needs to function. Local infrastructure varies greatly from one city to the next but may include buildings, libraries, water and sewer systems, transportation and communications systems, parks, and public thoroughfares such as sidewalks, trails, streets, bridges, and parking facilities. Money to fund local improvements comes from a variety of sources and often combines the following income generating methods and situations. This chapter focuses on the most commonly used legislatively authorized financing tools available to cities.

[Handbook, Chapter 21.](#)

Consider combining the financing tools described in this chapter with a long-term capital budgeting plan. A capital budgeting plan (sometimes referred to as a capital improvement plan or CIP) typically lists five or six years of needed capital improvements (sewer and water infrastructure, public buildings, equipment, or land purchases), their order of priority, and the means of financing. A plan allows a city to build up a fund balance for these projects. Priorities in the capital budget program remain tentative, and the council reviews them annually. Although capital improvement budgeting may appear cumbersome and unwieldy to small cities, this is actually not the case. A capital budget plan provides protection to small cities, avoiding unforeseen infrastructure failures and expensive emergency repairs.

II. Issuing debt

A. Bonds

[Handbook, Chapter 24. “Municipal Borrowing Authority,”](#) *Minnesota Cities* (July, 2001 p. 19).

[Minn. Stat. § 475.52.](#)

A person getting a loan to finance the purchase of a car -- but cities may not borrow money from banks through conventional loans to finance local improvements. Cities commonly raise capital to pay for local improvements by borrowing money. Cities incur debt and borrow money by issuing and selling municipal bonds also known as general obligation (GO) bonds. GO bonds often create funding tied to a specific use (such as water systems) but are backed by the taxing power of the city.

Municipal bonds are low risk because all city assets and resources, including the unlimited power to tax, back the city's contract to pay back the amount of the bond with interest. The security for a GO bond is the pledge of those resources and taxing powers.

[Minn. Stat. § 475.53, subd. 1.](#)

There are limits on the amount of debt a city may incur through the issue and sale of bonds. Currently the “net debt” limit is 3 percent of the market value of taxable property in the city. In some situations, residents must vote in favor of a bond before a city may issue them, however, there are many exceptions to this requirement.

[Handbook, Chapter 21.](#)

There are other types of bonds, each requiring specific legal procedures, for example:

- Revenue bonds—tied to a specific funding stream.
- GO revenue bonds—tied to both the full faith and credit of the city and a specific funding stream.
- Bonds by purpose—GO bonds issued for a specific purpose. This is not a legal requirement but used for convenience in identifying bonds with an improvement.
- Bonds by user—also known as “private activity bonds” and used partially or entirely for private purposes, but still tax exempt.

Municipal bonds are attractive to buyers because they are low risk and usually tax exempt. When using bonds to finance local improvements, cities must work with the city attorney and bond counsel to maintain the tax-exempt status of the bonds and ensure compliance with all state and federal financing and bond law.

B. Certificates of indebtedness

[Minn. Stat. § 412.301.](#)

[Minn. Stat. § 410.32.](#)

Statutory and charter cities may issue debt in the form of capital notes or certificates of indebtedness to purchase :

- public safety equipment,
- ambulance and other medical equipment,
- road construction and maintenance equipment, and other capital equipment
- computer hardware and software, whether bundled with machinery or equipment or unbundled.
- The purchased equipment or machinery must have an expected useful life at least as long as the certificates or notes.

III. Property tax related tools

A. Local general fund

[LMC Property Tax 101.](#)

[State of the Cities Report 2012.](#)

City general levies collected with property taxes may fund local improvements. Cities identify local improvement needs in the annual budgeting process and may assign a percentage of the general city levy to fund ongoing capital improvements. Though property taxes fund essential infrastructure needs, cities report property tax collection shortfalls due to the dramatically increased number of foreclosures.

B. Infrastructure replacement reserve fund

[Minn. Stat. § 471.572.](#)

Another financing mechanism is the creation of an infrastructure replacement reserve fund. A city council may establish a reserve fund by a two-thirds vote of all its members through ordinance or resolution, and may annually levy a property tax for the support of the fund. The city must hold a public hearing on the question and comply with other procedural requirements.

The proceeds of property taxes the city levies specifically to support this fund must go into the reserve fund. The city may dedicate any other additional monies to the fund.

Before levying property taxes for the reserve fund, the city must publish an initial resolution authorizing the tax levy in its official newspaper. If, within 10 days after the publication, voters file a petition with the clerk, the council must submit the levy question to the voters at a regular or special election. For the petition to be valid, it must be signed by a number of qualified voters greater than 10 percent of the number who voted in the last general city election.

If the city establishes a reserve fund, the council may submit a question to the voters asking if the city should dedicate the fund to a particular type of capital improvement. If a majority vote in favor of the restriction, the reserve fund may only be used for that purpose.

C. Storm sewer improvement districts

[Minn. Stat. §§ 444.16 - 444.21.](#)

Creating a storm sewer improvement district (SSID) provides another tool to fund specialized city infrastructure. After two weeks published notice and a public hearing, the council of any city may, by a two-thirds vote of council members, pass an ordinance establishing an SSID. After passage, the council must record the ordinance with the county auditor and/or the county recorder.

After establishing the district, the council may acquire, construct, reconstruct, extend, maintain, and otherwise improve, storm sewer systems and related facilities within the district. The city may also acquire, maintain, and improve stormwater holding areas and ponds within and outside city limits for the benefit of the district.

Minn. Stat. § 444.19.

Tax levies on property in the district pay for the improvements, including principal and interest on bonds. A council may, by resolution, decide to issue GO bonds to assure payment of the principal and interest in the event the proceeds of the tax levy in the district are insufficient to pay the principal and interest. The sale of such bonds must comply with Chapter 475, except that such bond sale requires no election. The amount of the obligations, or bonds, is not included in determining the net indebtedness of the city. After all obligations issued to finance improvements within the district are retired, the council may choose to dissolve the district, but is not required to do so.

Minn. Stat. § 444.18, subd. 3.

Once the council establishes an SSID, it must follow statutory procedures before awarding a contract for an improvement in such a district. The council must hold a public hearing on the proposed improvement after giving published notice twice in the city's official newspaper. The notice must include:

- The time, date, and place of the hearing.
- The general nature of the improvement.
- The estimated cost of the improvement.
- Which areas in the city the levy will cover.
- The amount of time to recover the costs of the improvements.

Minn. Stat. § 444.18, subd. 3.

Before awarding a contract for an improvement, a city must publish notice of a public hearing two times, at least a week apart. The hearing must occur at least three days after the last publication. The owners of property within the district must also receive mailed notice of the public hearing at least 10 days before the hearing occurs. Such mailed notice must include the estimated tax levy each parcel pays in the first year.

Minn. Stat. § 444.18, subd. 3.

Before the hearing, the council must secure a report from the city's engineer, advising the council as to:

- The feasibility of the proposed improvement.
- Whether it should be made as proposed or in connection with some other improvement.
- The estimated cost of the improvement.

Minn. Stat. § 444.18, subd. 3.

The council must pass a resolution adopting the improvement. The resolution may be adopted at any time within six months after the hearing.

D. Urban and rural service districts

[Minn. Stat. § 272.67.](#)

State law allows cities to divide their area into an urban service district and a rural service district. Cities in a metropolitan county with a first class city cannot use this statutory tool.

1. Urban service district

The urban service district must include all lands within the boundaries of the city, which are not included in the rural service district, discussed below. The ordinance determines the approximate ratio that exists between the benefits resulting from tax-supported municipal service to parcels of land of similar market value and in the urban service district. The council may amend the ordinance to change this benefit ratio.

2. Rural service district

The rural service district includes only such unplatted lands, or parcels, that the city council determines are rural in character, and are not developed for commercial, industrial, or urban residential purposes. For these reasons, land in the rural service district does not benefit from city services to the same degree as other lands. The rural service district may include parcels of land that are not contiguous to one another. The ordinance may also designate lands outside the city, which, if annexed, will be included within the rural service district. Parcels may be added to or removed from the rural service district, but the ordinance may not require an amendment to remove lands from a rural district.

The county auditor then allocates levies (other than those for payment of bonds and judgments) between the areas in amounts proportionate to benefits ratios determined for the separate districts. In theory, this division into urban and rural service districts generates additional tax dollars from developed properties in the city, which can be used to pay for municipal services and fund local improvements that benefit those properties.

E. Tax abatement

[Minn. Stat. §§ 469.1812 - 1815.](#)
[“Property Tax Abatements for Economic Development,”](#) House Research Short Subjects, June 2012.
[Handbook, Chapter 15.](#)
[Minn. Stat. § 469.1813.](#)

This financing tool authorizes the issuance of bonds to be paid back with the funds collected by tax abatements. The term “abatement” is misleading, as the tax is not forgiven or abated. The tax is paid normally, but the amount of property tax levied by the city is used to pay for the bonds. For example, a city may “abate” all or a portion of city property tax on one or more parcels of real or personal property, including machinery, for economic development purposes. And cities may issue general obligation or revenue bonds to construct public improvements. As the property owners pay the abated taxes, rather than the local property taxes, the payments go directly to paying off the bonds.

Abatement bonds are not subject to referendum approval and are excluded from debt limits. In any year, the total amount of property taxes abated by a city may not exceed 10 percent of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies or \$200,000, whichever is greater.

F. Tax increment financing

Minn. Stat. §§ 469.174 - 179.

Handbook, Chapter 21.

“Tax Increment Financing.” House Research Short Subject, Oct. 2010.

Tax increment financing (TIF) is a broadly applicable financing tool that funds more than local improvements. Basically, it segregates certain tax dollars from a defined area in the city for use in developing and improving the area, which can include local improvements. TIF takes advantage of the increases in tax capacity and property taxes from development or redevelopment before the development actually occurs to pay for public development or redevelopment costs. The difference in the tax capacity and the tax revenues the property generates after new construction has occurred, compared with the tax capacity and tax revenues it generated before the construction, is the captured value. The taxes paid on the captured value are called “increments.” Unlike property taxes, increments are not used to pay for the general costs of cities, counties, and schools. Instead, increments go directly to the development authority to repay public indebtedness or upfront costs the city incurs in acquiring the property, removing existing structures, or installing public services. TIF requires extensive planning, implementation, and reporting in consultation with the appropriate financial and legal professionals.

IV. Funds for specific purposes

A. Waterworks systems

Minn. Stat. § 444.075.

Minn. Stat. § 444.075, subd. 2.

Minn. Stat. § 444.075, subd. 3(b).

LMC information memo, *Securing Payment of Utility Charges*.

Cities may acquire and operate waterworks systems including sewer systems and storm sewer systems. Cities may use any of the following tools or a combination of them to fund construction, maintenance, or improvement of any of these systems or parts of these systems. Cities may also use special assessments to pay for waterworks, sewer and storm sewer systems, discussed subsequently. In statutory and charter cities, even if a charter indicates otherwise, charges made for services must be, as nearly as possible, proportionate to the cost of furnishing the service.

1. Availability fees

Minn. Stat. § 444.075.

Minn. Stat. § 444.075, subd. 3(h).

Minn. Stat. § 444.075, subd. 3c(b).

Water and sewer availability fee, sometimes known as WAC and SAC fees, may be set to cover the eventual costs of improvements to local waterworks infrastructure including construction, reconstruction, repair, or enlargement of the system. Cities may charge use and availability fees for waterworks services even against properties not currently connected to the system. Collecting charges to build up revenue is reasonable, according to the law, even well before a city starts a planned waterworks or sewer project.

Availability fees for waterworks, sanitary sewers, or storm sewer must pay for the construction, reconstruction, repair, enlargement, improvement, or other obtainment; the maintenance, operation, and use of the facilities, and of obtaining and complying with permits required by law.

2. Use fees for water, sewer, and storm sewers

a. Water fees

Minn. Stat. § 444.075, subds. 3-4.
Minnesota Rural Water Association,
Water Rate Analysis Spreadsheet.
“Water and Sewer Rates,” by Ruth
Hubbard, *Minnesota Rural Water*
Today, June 6, 2000.

In addition to availability fees, a city may use a combination of methods to set rates for water, including, but not limited to, flat rates, rates based on usage, and different rates based on a reasonable classification of property (for example, commercial or residential property). Cities may consider doing a rate study to ensure that collections cover debt, depreciation, reserve, operating, and maintenance costs.

b. Sewer fees

Minn. Stat. § 444.075, subd. 3a(4).

Cities may charge for sanitary sewer according to the amount of water consumed or by reference to a reasonable classification of the types of premises receiving the service. Cities may also combine these formulas to set sanitary sewer charges based on the type of property and the amount of water used. Sanitary sewer charges must not be based on the size, or square footage, of the property served.

c. Storm sewer fees

Minn. Stat. § 444.075, subd. 3b(4).

Storm sewers are systems built to prevent flooding and to separate stormwater from sanitary sewer systems. Stormwater is the runoff from rain and melted snow that picks up dirt, grease, fertilizer, and many other pollutants as it makes its way into streams and lakes. Minnesota law currently defines “storm sewer” as storm sewer systems, including mains, holding areas and ponds, and other accessories and related facilities for the collection and disposal of stormwater. Storm sewer charges may be fixed according to the size of the property (adjusted for a reasonable calculation of the stormwater runoff) or by referring to the same reasonable classification of the type of property as discussed above. Storm sewer charges may also be calculated by referring to the quantity and quality of pollutants and the difficulty of disposing of the stormwater runoff. Storm sewer charges must not be based on the amount of water consumed at a particular property.

3. Connection charges

Minn. Stat. § 444.075, subd. 3.
Crown Cork & Seal Co., Inc. v. City
of Lakeville, 313 N.W.2d 196
(Minn. 1981).

Cities may use connection charges (in addition to use and availability charges) to finance the construction and operation of water and sewer systems. Cities cannot base connection charges on the square footage of the property served. Connection charges may be set by reference to any of the following criteria:

- The actual cost of connection,
- By reference to assessments paid by the connecting property, or
- At the council’s discretion, by any other method, as long as the connection charge is “just and equitable.”

Cities may also use connection charges to pay for obtaining and complying with permits required by law (for example, permits that the National Pollutant Discharge Elimination System requires.)

4. Contracts

Minn. Stat. § 444.075, subd. 5.

Cities may contract with individuals, companies, or corporations to either use or construct waterworks facilities. The company or individual need not be a resident or inside city limits. Cities may also contract with other cities or counties to obtain or use waterworks facilities.

B. Recreation facilities

Minn. Stat. § 471.191.

Any city operating playgrounds or a program of public recreation may issue bonds to acquire, lease, or maintain land, buildings, and other recreational facilities. These include, but are not limited to, indoor swimming pools, skating rinks, athletic fields, golf courses, marinas, concert halls, museums, and facilities for other kinds of athletic or cultural participation, contests, or exhibitions, and related parking facilities. Revenue or general obligation bonds may fund such facilities but they are subject to a vote.

C. Street reconstruction

Minn. Stat. § 475.58, subd. 3b.

If a city has a street reconstruction plan that describes the street reconstruction to be financed and covering at least five years, it may issue bonds to do so without a vote, but only after a public hearing. Street reconstruction includes utility replacement and relocation and other activities incidental to the street reconstruction, turn lanes, and other improvements having a substantial public safety function, realignments, other modifications to intersect with state and county roads, and the local share of state and county road projects. Street reconstruction does not include costs of widening a street or adding curbs and gutters where none previously existed. Voters may petition for a referendum, or vote, on issuing the bonds within 30 days of the public hearing.

Minn. Stat. § 475.58, subd. 3b.

A unanimous vote of all the city council members *present* may now authorize street reconstruction bonds rather than the previous requirement of a unanimous vote of all members of the council.

D. Capital improvement

[Minn. Stat. § 475.521.](#)

Cities may issue capital improvement bonds for specific purposes. It is essential that cities follow statutory procedures (such as providing notice and a public hearing) when issuing this, or any, type of bond. In this context, “capital improvement” means acquisition or betterment of public lands, buildings, or other improvements for the purpose of a city hall, town hall, library, public safety facility, and public works facility. An improvement must have an expected useful life of five years or more to qualify. Three-fifths of the members of a five-member governing body must vote to approve the bonds. In the case of a governing body having more or less than five members, at least two-thirds of the council must vote to approve them. Capital improvement does not include light rail transit or any activity related to it, or a park, road, or bridge. City halls or town halls qualify as capital improvements as well as the land for any of these public facilities. These bonds are not subject to a vote unless voters petition for a reverse referendum.

V. Land use related tools

A. Development contracts

[Minn. Stat. § 462.358.](#)

LMC information memo, [Zoning Guide for Cities](#).

[Handbook, Chapter 21.](#)

[Minn. Stat. § 462.358, subd. 2b.](#)

[Ruzic v. City of Eden Prairie](#), 479 N.W.2d 417 (Minn. Ct. App. 1991).

LMCIT risk management memo, [Subdivisions, Plats and Development Agreements](#).

Cities may, by ordinance, regulate subdivisions of land encouraging orderly development and planning for all the related necessities such as streets, parks, water, sewer, stormwater, and open spaces. City authority to adopt a subdivision ordinance includes setting out the standards and requirements to subdivide land in the city. As part of this process, cities may enter into development contracts requiring that a developer install local improvements in a new subdivision. Or, the city may enter into an agreement with a developer, requiring that the developer pay the special assessments if the city puts in the improvements. Development agreements are sophisticated, legally binding contracts that may govern everything from lampposts to financial protections for the city and the developer. Seek legal advice from the city attorney long before entering into a development agreement.

B. Land and park dedication or fees

[Minn. Stat. § 462.358, subd. 2b.](#)

As another way to fund local improvements in a newly developing area, a city subdivision ordinance may require that a developer dedicate a reasonable portion of buildable land of any proposed subdivision to the public for use as:

- Streets, roads, sewers, electric, gas, and water facilities, stormwater drainage and holding areas or ponds, and similar utilities.
- Parks, certain recreational facilities, playgrounds, trails, wetlands, or open space.

Alternatively, cities may accept a “cash fee” instead of land. The ordinance must specifically describe these dedication requirements and the alternative fee. The city must seek legal advice and carefully follow the laws procedural mandates, especially if a city requires dedication of land for park purposes.

C. Adequate public facilities

[Minn. Stat. § 462.358, subd. 1a.](#)

[Minn. Stat. § 462.358, subd. 2a.](#)

[Concept Properties, LLP v. City of Minnetrista](#), 694 N.W.2d 804 (Minn. Ct. App. 2005).

State law gives cities authority to manage development of land to protect and promote public health, safety, and general welfare. Some cities focus on this authority and adopt subdivision ordinances based on adequate public facilities standards. Some cities posit that this allows a city to approve or deny a subdivision application by focusing on public infrastructure facilities such as roads, stormwater ponds, sewer, water, and trails. If developers so choose they may enter into development agreements to address the lack of adequate public facilities before development occurs.

Similarly, establishing transportation improvement districts (TID) in a city recognizes the need for funding to address substandard infrastructure near new developments. Using these land use related approaches to financing local improvements in a city requires ongoing legal advice.

VI. Statutory financing tools

A. Special assessments

[Minn. Stat. ch. 429.](#)

Chapter 429 allows special assessments, which theoretically ease the problem of financing local improvements. Special assessments are charges a city levies against real property for a local improvement that provides special benefits to the charged properties. The city may finance all or part of an improvements cost in this manner, but only by strict compliance with the law.

LMC information memo, [Special Assessment Guide](#). LMC information [Special Assessments Checklist and Sample Forms](#).

The most typical use is to pay for infrastructure in undeveloped areas of a city, particularly when the city is converting new tracts of land to urban or residential use. Special assessments frequently pay for opening and surfacing streets; installing utility lines; and constructing curbs, gutters, and sidewalks. Special assessments may partially underwrite the cost of major maintenance programs. Cities often use special assessment to finance, in part, large-scale repairs and maintenance operations on streets, sidewalks, sewers, and similar facilities. Another use of special assessments is the redevelopment of existing neighborhoods. Cities use special assessments when areas age and the infrastructure needs updating.

Minn. Stat. §§ 216C.435-.436. Minn. Stat. § 429.021, subd. 1.

Contact the Minnesota Department of Employment and Economic Development 651-259-7114.

Minn. Stat. §§ 216C.435-.436.

Cities may encourage energy improvements on private property. Residents may use the *Voluntary Energy Improvements Financing Program* to make energy improvements to their qualifying real property in the city. If a city chooses to institute this program, the city issues revenue bonds to procure funds that residents then use. In addition, the law allows economic development authorities (EDAs) and housing redevelopment authorities (HRAs) to do this with city approval. Cities secure repayment of the bonds with a lien against the qualifying real property, and owners repay the borrowed money as a special assessment added to their property taxes. At the time of publication some questions exist regarding this program and the priority of liens created by it.

Special Assessments, House Research Information Brief, Sept. 2008.

The special benefits test limits how much an area of a city pays for local improvements through special assessments. The measure of the benefit is the increase in the market value of the land because of the improvement. Under the special benefit test, special assessments are presumptively valid if the land receives a special benefit from the improvement, the assessment does not exceed the special benefit measured by the increase in market value due to the improvement, and the assessment is uniform as applied to the same class of property in the assessed area.

To ensure full protection for property owners, state law and courts applying Chapter 429 insist on strict compliance with complex procedural requirements. Because these requirements have legal implications, city councils should have the city attorney guide assessment proceedings.

B. Special service districts

Minn. Stat. §§ 428A.01 - 428A.101.

Another way to fund local improvements in business areas of a city is by use of special service districts (SSDs). An SSD is any defined area in a city where the city delivers special services for which the city imposes and collects special charges. Only land zoned for business purposes (commercial, industrial, land for public utility purposes, or vacant land similarly zoned) is subject to the special charges.

Minn. Stat. § 428A.02.

Minn. Stat. § 428A.08.

Landowners, not the city, initiate establishment of an SSD. Twenty-five percent or more of the owners of the land area of property subject to service charges *and* owners of 25 percent or more of the net tax capacity of property subject to the district must file a petition with the city clerk, calling for a public hearing. The city council may decide to establish the SSD based on the petition, but is not required to do so. Before the imposition of service charges in a district, for each calendar year, a hearing must be held according to law and notice must be given and must be mailed to any owner, individual, or business organization subject to a service charge.

Minn. Stat. § 428A.02, subd. 2.

Minn. Stat. § 428A.03, subd. 1.

Minn. Stat. § 428A.101.

SSDs are another tool cities may use to make, and pay for, local improvements in certain areas of a city if business owners request it and where special services are rendered and paid for with revenues collected from service charges. Service district charges are not property tax levies, even though they are based on net tax capacity and are payable and collected in the same manner as property taxes. The service charges are not included in computations of tax increments, fiscal disparities, or any other law that applies to general ad valorem levies. Note: The establishment of a new special service districts after June 30, 2013, requires special legislation.

C. Housing improvement areas

Minn. Stat. §§ 428A.11 - 428A.20.
Housing Improvement Areas, House
Research, Nov. 2010.

In a very similar manner to SSDs, cities may use housing improvement areas (HIAs) to fund local improvements in common areas of townhouses or condominium neighborhoods. Note: After June 30, 2013, the establishment of a new HIA requires enactment of a special law authorizing the establishment. Prior to establishment of a housing improvement area, the governing body of the city must:

Minn. Stat. § 428A.03, subd. 1a.

- Provide full disclosure of public expenditures, as well as the terms of any loans, bonds, or other financing arrangements for housing improvement area projects; and
- Determine whether the association or the city will contract for the housing improvements, and ensure that any contracts made by the implementing entity are subject to municipal contracting law.

Minn. Stat. § 471.345.

Minn. Stat. § 428A.12.

A petition from landowners initiates establishment of an HIA, not the city council. At least 50 percent of the affected property owners of the housing units potentially subject to fees in the proposed HIA must file a petition with the city clerk. The petition, filed with the city clerk, requests a public hearing on the establishment of an HIA and on the proposed fees. Additional statutory procedures apply to HIAs.

Minn. Stat. § 428A.20.

Minn. Stat. § 428A.14, subd. 1.

The city council may specially assess housing improvements to property in an HIA *in addition* to the fees for improvements made pursuant to the HIA ordinance. If a fee is imposed on a basis other than the tax capacity or square footage of the housing unit, the council must make a finding that the alternative basis for the fee is more fair and reasonable. (Of course, a city doing so must follow all special assessment procedures in Chapter 429.)

Minn. Stat. § 428A.18, subd. 2.

Minn. Stat. § 428A.13.

Minn. Stat. § 428A.14.

However, both an HIA ordinance and an HIA resolution setting fees may be vetoed. If 45 percent of the residents of housing units subject to the fees file an objection to the ordinance adopted by the with the city clerk before the effective date of the ordinance, it does not take effect. In addition, if owners of 45 percent or more of the housing units' tax capacity subject to the fee set by resolution file an objection with the city clerk before the effective date of the resolution, it does not become effective.

D. Sidewalk improvement districts

Minn. Stat. § 435.44.

A city may establish, by ordinance, a sidewalk improvement district to pay all or part of the cost of sidewalk construction and repair by apportioning the cost throughout the property in the district on a “direct or indirect benefit basis.” The council may establish districts in order to provide all areas with safe pedestrian walkways to and from schools, school bus stops, public transportation facilities, and other neighborhood and community services.

The total cost may be apportioned and assessed to all property in the district on a uniform basis as to each classification of property. An indirect benefit assessment may involve all property in the district without regard to location of sidewalks. A direct benefit may be assessed to abutting property for the additional cost of an extra sidewalk width. Assessments may be spread over a five-year period, but there is no provision in the statute for issuing obligations initially, to finance the cost, nor is any procedure prescribed for making the assessments. The law makes no mention of Chapter 429 or special assessments.

E. Economic development authority

Minn. Stat. §§ 469.090 – 469.1081.
Handbook, Chapter 15.

Economic development authorities (EDAs) possess additional funding power that may help cities fund certain local improvements. An in-depth examination of EDAs is beyond the scope of this chapter, but in general an EDA can issue lease revenue bonds (without a vote or referendum requirement and not subject to net debt limits) to construct public facilities such as a fire hall or a city hall, and lease it back to the city. In the lease, the city agrees to cover the bond payments and eventually purchase the public facility.

Minn. Stat. §469.174, subd. 10c.
Minn. Stat. §469.175, subd. 2b.
Minn. Stat. §469.176, subd. 1i.
Minn. Stat. § 273.13, subd. 24.

Compact development tax increment financing (TIF) districts must meet two conditions: Parcels consisting of 70 percent of the area of the district are occupied by buildings or similar structures that are classified as class 3a property. The planned redevelopment or development of the district, when completed, will increase the total square footage of buildings occupying the district by three times or more relative to the square footage of similar buildings occupying the district when the resolution is approved. The authority to establish or approve such a district expired on June 30, 2012.

VII. State funding sources for roads and bridges

The state provides funding to Minnesota cities for local roads and bridges in a number of ways:

- The municipal state aid program (MSA).
- The local road improvement program.
- State bonding.
- Regular state general fund appropriations.

A. Municipal state aid (MSA)

Minn. Const. art. XIV, § 4.
 Minn. Stat. §§ 162.09 – 162.18.
 Minn. Stat. § 162.09, subd. 4(a-f).
 Minn. R. ch. 8820.

The MSA program, administered by the Minnesota Department of Transportation (Mn/DOT) provides funding to support qualifying city roads and bridges in cities with a population of 5,000 or more, based on the last federal census or a special census, done by contract with the U.S. Bureau of the Census and paid for by the city. A city with a population that drops below 5,000 in the most recent federal decennial census may still qualify for MSA funds in certain situations. Mn/DOT decides what city roads fit the criteria as defined by rule.

Cities use these funds to construct, improve, and repair MSA streets in any of the following ways:

- Use current allocations to pay for projects.
- Borrow against the city's future MSA allocation.
- Issue bonds that will be repaid with MSA funds.
- Use MSA funds to meet participation requirements on county or Mn/DOT projects.
- Combine MSA dollars with money collected through special assessments.

Mn/DOT State Aid for Local Transportation.

City engineers work with the state to identify and procure MSA funding for qualifying streets. A screening board, appointed by the commissioner of Transportation, includes one city engineer from each of the eight Mn/DOT districts, two engineers from the Metro Division, and one engineer from each of the first class cities (populations of 100,000 or more). The board annually reviews all information as to the financial needs of the MSA system and submits its recommendations to the commissioner on or before the first day of November of each year.

B. State funded local road improvement program

Minn. Stat. § 174.52.
 State Aid for Local Transportation (SALT).

Two types of accounts provide financial assistance to cities in construction, reconstruction, or reconditioning of roads and bridges with regional significance:

- Trunk highway account.
- Routes of regional significance account.

Each account has unique criteria in how and when the funds become available and how they may be spent. Mn/DOT and the State Aid for Local Transportation Division (SALT) administers these programs and provides oversight and approval of all projects using funds from these programs.

1. Safe routes to school

Minn. Stat. § 174.40.

MNDot: Safe Routes to Schools
Program: Infrastructure Implementation
Program.

Quoting the Minnesota Department of Transportation (MNDot) the Safe Routes Minnesota provides funding to community and school groups to make improvements to the routes children use to walk and bike to school. Schools, in partnership with cities or counties, may receive grants to support infrastructure that improves safety or access for children walking and biking to school. Applications are due Friday, Feb. 15, 2013.

2. Trunk highway account

Mn/DOT State Aid Manual.

According to Mn/DOT, this account funds loans or grants to cities to assist in paying the local share of Mn/DOT trunk highway projects that have local costs related to the trunk highway improvement and are not funded or are only partially funded with other state and federal funds. The Legislature authorizes the use of GO bonds for this account.

3. Routes of regional significance account

Mn/DOT State Aid Manual.

Grants from this state account may help cities pay the costs of constructing or reconstructing city streets with statewide or regional significance that have not been fully funded through other state, federal, or local funding sources. The SALT Office selects projects for these grants based on established procedures and criteria.

4. Local bridge replacement program

Minn. Stat. § 174.50.

Minn. Stat. § 174.50, subs. 6 and 7.
Minn. Stat. § 174.50, subd. 6c.

Mn/DOT and SALT administer funding programs exclusively for local bridge projects, including the Federal Aid Bridge Replacement Program and State Transportation Fund (Bridge Bonds). Although the state manages these programs, the funds are not state aid funds. Mn/DOT must cooperate with local road authorities to develop rules, procedures for application for grants, conditions of grant administration, standards, and criteria for local bridge projects and specifications. In addition, Mn/Dot must develop rules that establish criteria for determining priorities and amounts of grants. The basis of the criteria must consider the following factors:

- Effectiveness of the project in eliminating a deficiency in the transportation system.
- Number of persons affected by the deficiency.
- Economic feasibility.
- Effect on optimum land use and other concerns of state and regional planning.

- Availability of other financing capability.
- Adequacy of provision for proper operation and maintenance after construction.

As part of the standards or rules, Mn/DOT must, in consultation with local road authorities, establish a minimum distance between any two bridges that cross over the same river, stream, or waterway, so that only one of the bridges is eligible for a grant. As appropriate, Mn/DOT may establish exceptions from the minimum distance requirement or procedures for obtaining a variance. Cities must apply for the money and win approval on a project-by-project basis. Mn/DOT may make a grant to any city for replacement or rehabilitation of a fracture-critical bridge.

City Engineers Association of Minnesota, Minnesota Chapter of the American Public Works Association and the League of Minnesota Cities, *Funding Street Construction and Maintenance in Minnesota's Cities*. January 2003.

State bridge bonds generally match or supplement other bridge repair and replacement resources such as federal aid, county state aid (CSA) and MSA allotments, and local property tax revenue. Bond funds are often the catalyst that allows replacement or rehabilitation of a bridge. Historically, bridge bonds provide 20 percent to 40 percent of a project's cost.

C. State highway user taxes

The Minnesota Constitution establishes the Highway User Tax Distribution Fund (HUTDF). Revenue comes from the state motor fuel tax, or gas tax, and vehicle registration fees. Nine percent of the revenue goes to the MSA system, 62 percent to the trunk highway fund, and 29 percent to the CSA highway fund. The state parcels out remaining funds to a number of different transportation programs based on a legislatively determined formula that changes no more than once every six years. Sometimes, but not often, the state appropriates general fund dollars for specific local road and bridge programs.

[Minn. Const. art. XIV, § 5.](#)

D. Transportation revolving loan fund

The state transportation revolving loan fund provides below-market financing to local governments and Mn/DOT for transportation-related projects. Mn/DOT also administers this program in conjunction with the Public Facilities Authority (PFA). PFA may loan money to a city for transportation infrastructure projects even if the city is not eligible for federal or state financing. The loan must be repaid by the city from the proceeds of special assessments, tax increments, or other local taxes, such as sales taxes, lodging taxes, liquor taxes, admissions and recreation taxes, and food and beverage taxes, authorized to be used for purposes of the project.

[Minn. Stat. § 446A.085.](#)

[Minn. Stat. § 446A.085, subd. 15.](#)

VIII. Federal road and bridge funding sources

Mn/DOT Minnesota's Highway Finances.

Funds for roads and bridges come to Minnesota from the federal highway trust funds and from federal motor fuel taxes. There are eight area transportation partnerships (ATPs), which include representatives from cities and counties, the state, and other transit-related agencies. A substantial amount of federal highway revenue goes to local government projects. Typically, this is about \$100 million or more per year.

A. Grant anticipation financing of transportation or transit projects

Minn. Stat. § 475.522.

Cities may borrow in anticipation of the receipt of federal transportation grants by issuing bonds (known as GARVEE bonds). With this funding tool, a city can borrow on behalf of a state agency that is to receive the federal grants. The state agency pledges to pay the grant money to the city or county that issued the bonds. The proceeds of the bonds then finance the transportation projects, which the grants will eventually fund as well as debt service, issuance costs, and funding a reserve for the project.

IX. State funding for infrastructure

Public Facilities Authority.
Minn. Stat. ch. 446A.

The Minnesota PFA is responsible for the administration and financial management of revolving loan funds and other programs to assist local governments and others with the construction of public infrastructure. The programs administered, in part, by PFA are:

Minn. Stat. § 446A.07.
Minn. Stat. § 446A.07, subd. 7.

- Clean Water Revolving Fund, providing below-market financing to local governments to upgrade and construct wastewater treatment and collection facilities, administered in conjunction with the Minnesota Pollution Control Agency and based on criteria in state law.
- Wastewater Infrastructure Fund (WIF), providing supplemental assistance to local governments for predesign, design and construction of cost-effective wastewater treatment projects, including purchase of land and easements. Supplemental assistance is provided in conjunction with the clean water revolving fund.
- Total Maximum Daily Load (TMDL) Grants, providing money to assist municipalities with costs for projects required by TMDL implementation plans.

Minn. Stat. § 446A.072 subd. 1.

Minn. Stat. § 446A.074.
Minn. Stat. § 446A.073.

Minn. Stat. § 446A.075, subd. 1a.

Minn. Stat. § 446A.081, subd. 9.

Minn. Stat. § 446A.081, subd.8.

Minn. Stat. § 446A.087.

- Small Community Wastewater Treatment Program, providing loans and grants to assist local governments with costs to replace non-complying Subsurface Sewage Treatment Systems (SSTS) (commonly known as septic systems) with new subsurface sewage treatment systems, or publicly owned and operated small cluster sewage treatment systems. If a governmental unit receives preliminary approval by the Pollution Control Agency of its feasibility report the state may make a partial construction award for eligible design costs.
- Drinking Water Revolving Fund, providing below-market financing and in some situations, loan forgiveness, to local governments and other public water suppliers to upgrade and construct drinking water treatment, distribution, and storage facilities. The Minnesota Department of Health (MDH) also administers this program based on criteria in state law.
- Credit Enhancement Program, providing a limited state guarantee for certain types of general obligation bonds issued by cities for purposes specified in state law.

A. USDA rural development

USDA Rural Development, Program Fact Sheets.

As it relates to local infrastructure, USDA Rural Development provides funding to rural communities for clean water, hospitals, clinics, community centers, day-care facilities, first responder needs and other essential community infrastructure. Rural development prioritizes public entities, in areas with less than 5,500 people, to restore a deteriorating water supply, or to improve, enlarge, or modify a water facility or an inadequate waste disposal facility. Small facilities and those serving low-income communities receive preference.

1. Financing tools for water-related projects

Cities often encounter timing issues when working with federal grants or financing water-related projects. The money may not be available when the city needs to start water, sewer, and wastewater projects. Minnesota Rural Water in conjunction with others, offers a number of financing tools to help cities fund water, sewer, and wastewater projects:

Minnesota Rural Water Financing Authority.

Minnesota Governmental Agency Finance Group.

Micro Loan Financing Program.

- The Minnesota Rural Water Finance Authority (MRWFA) is an interim construction loan program providing funding at a very low cost of borrowing for communities receiving a permanent loan commitment from the U. S. Department of Agriculture, Rural Development (RD).
- The Minnesota Governmental Agency Finance Group (MGAFG), in conjunction with Morgan Keegan, offers a “Flexible-Term Finance Program” for a variety of projects with loan terms up to 25 years helping communities obtain competitive financing for water, wastewater, gas, streets, and community facilities projects.
- Minnesota Rural Water Association’s Micro Loan Program provides low-cost loans from \$30,000 to \$200,000, repayable in seven years, to members for small projects.

National Rural Water Association
Revolving Loan Fund.

- National Rural Water Association (NRWA) Revolving Loan Fund (RLF) provides financing to eligible utilities for pre-development costs associated with proposed water and wastewater projects. RLF funds can be used on existing water/wastewater systems and the short-term costs incurred for replacement equipment, small-scale extension of services or other small capital projects that are not a part of regular operations and maintenance.

2. Funding for infrastructure in greater Minnesota

Greater Minnesota Business
Development Grant.

The purpose of the Greater Minnesota Business Development Infrastructure Grant program is to stimulate new economic development and/or create or retain jobs in greater Minnesota through public infrastructure investments. The program provides grants to cities, on a competitive application basis, of up to 50 percent of the capital costs of industrial park development or other projects that will keep and/or enhance jobs, increase a city's tax base, and expand or create new economic development. Eligible applicants are statutory or home rule cities outside of the seven-county metropolitan area. Eligible projects are publicly owned infrastructures that include, but are not limited to, wastewater collection and treatment, drinking water, storm sewers, utility extensions, and streets that support economic development projects. Projects include manufacturing, technology, warehousing and distribution, research and development, and agricultural processing.

Minn. Stat. § 116J.431.

“Public infrastructure” means publicly owned physical infrastructure necessary to support economic development projects, including, but not limited to, sewers, water supply systems, utility extensions, streets, wastewater treatment systems, stormwater management systems, and facilities for pretreatment of wastewater to remove phosphorus. Funding for the program comes from state issued general obligation bonds and the amount available varies each bonding year.

X. Emergencies

Many state and federal agencies may offer various types of aid to cities in case of natural disasters. While most of this is beyond the scope of this chapter the following tools may assist funding infrastructure repair or replacement after a disaster occurs.

A. Levy for emergencies

Minn. Stat. § 12.26, subd. 2.

Minn. Stat. § 12.26, subd. 3.

Cities may annually levy for emergency management purposes in excess of and over and above all taxing limitations to pay expenditures incurred for emergency management purposes. In order to purchase additional infrastructure equipment (partially paid through federal funding), a political subdivision may levy an additional tax with the governor's approval.

[Minn. Stat. §273.1231 - 273.1235.](#)

Minnesota Department of Revenue:
[Truth in Taxation for taxes payable in 2013.](#)

The Minnesota Department of Revenue may decide to extend levy due dates for cities requesting a special levy to prepare infrastructure or other property for or repair the effects of natural disaster including the occurrence or threat of widespread or severe damage, injury, or loss of life or property resulting from natural causes. Levy increases for costs of clean up relating to a natural disaster are allowed beyond the amount certified for truth in taxation with the approval of the Commissioner of Revenue. Costs for preparing for the flood in addition to costs for repairing the effects of the flood could be included in the levy increase (beyond the preliminary levy certified for truth in taxation). In large-scale disasters like floods the Department of Revenue would allow the natural disaster special levy to include local costs for the disaster abatement. However, local costs for the abatement for one or minimal number of properties, for example, due to individual disaster like a fire, would not qualify for the special levy.

B. Issuing debt in an emergency

[Minn. Stat. § 475.754.](#)
[Minn. Const. art. XI, 6.](#)
[Handbook, Chapter 24.](#)
[Minn. Stat. § 412.751.](#)

Cities experiencing extraordinary expenditures, including infrastructure repairs, due to any natural disaster may issue emergency certificates of indebtedness. The city council may authorize the sale of certificates of indebtedness to mature within three years and to bear interest at a rate not to exceed the amount prescribed in law. The certificates may be issued with or without advertising for bids on such terms and conditions as the council may determine. The state auditor prescribes forms for these certificates.

[Minn. Stat. § 475.58, subd. 1\(11\).](#)

The certificates must be repaid by a levy that, according to the Department of Revenue, is not subject to or included in a city's levy limit, if any are in place. (For 2012, no levy limits are in place.) If these certificates are used to compensate for unallotment or reduction of other state aid, the same amount cannot be again recouped under a separate special levy. The certificates may be issued without holding a bond election.

C. Federal disaster relief

[44 C.F.R. Part 201.](#)

[Disaster Mitigation Act of 2000 Brings New Planning Requirements to Local Governments.](#)

Congress has a long history of funding disaster relief, recovery, and some hazard mitigation planning through the Federal Emergency Management Agency (FEMA). The Disaster Mitigation Act of 2000 (Public Law 106-390) reinforces the importance of mitigation planning in both pre- and post-disaster situations, and emphasizes planning for disasters before they occur. States and communities must have an approved mitigation plan in place prior to receiving Hazard Mitigation Grant Program funds. A local mitigation plan may ensure a city's eligibility for federal grant dollars to replace local infrastructure.

XI. How this chapter applies to home rule charter cities

Minn. Stat. ch. 410.

Charter cities may use any of the financing tools described in this chapter unless the city's charter provides otherwise. Some charters limit or alter a city's authority to use a particular financing tool, making it most important that charter cities consult the city attorney and the charter before embarking on a local improvement project.

A. Special assessments in charter cities

The constitutional special benefit rule applies to charter cities. Again, the special benefit rule requires that the amount of special assessments to a parcel of property cannot exceed the increase in market value of that property because of the improvement.

Minn. Stat. ch. 429.

Minn. Stat. § 429.111.

A.G. Op. 59B14, (June 26, 1956).

Generally, any city operating under a home rule charter may proceed either under Chapter 429 or under its charter in making an improvement, unless a home rule charter or amendment taking effect after April 17, 1953, provides for an improvement under Chapter 429 or the charter exclusively.

Minn. Stat. § 429.021, subd. 3.

If an option exists, the city council must determine whether to proceed under its charter or Chapter 429.

Minn. Stat. § 429.021, subd. 3.

Even if the city follows charter procedures, state law requires that notices of proposed assessments inform property owners of the procedures they must follow under the charter in order to appeal the assessments to district court. The notices must also inform property owners of the provisions of the senior citizen deferment law, military or disability related deferments, and the existence of any deferment procedure established by the city.

Minn. Stat. §§ 435.193 - 435.195.

Minn. Stat. § 429.021, subd. 3.

Charter provisions must require that the council issue the contract for all or part of the work, or order all or part of the work done by day labor, no later than one year after the adoption of the resolution ordering such improvement—unless the council specifically states a different time limit in the resolution ordering the improvement.

B. Funding for infrastructure

Some charters may limit the city's authority to use state law funding mechanisms or may include voting requirements that differ from state law. Each charter is a unique local constitution, which charter city councils must follow. Consult the city attorney for interpretation of local charters as they relate to financing local improvements.

XII. Conclusion

Funding local infrastructure improvements poses significant challenges to city councils. Careful planning, capital improvement plans, and fees that comport with all the costs of providing services help cities fund essential infrastructure expenditures.

Northland Securities Inc.
PUBLIC FINANCE TOPICS:

**Bond Financing for
Street Improvements
City of Ramsey, MN
July 1, 2013**

Presented by:
Paul Donna, Senior Vice President
Northland Securities, Inc.

1

TYPES OF BONDS

- **General Obligation Improvement Bonds**
- **General Obligation Street Reconstruction Bonds**
- **General Obligation Tax Abatement Bonds**

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TYPES OF BONDS

General Obligation Bonds

- Pledged security = property taxes
- Risk / Interest Cost = least / lowest
- May count against debt limit
- May be subject to a referendum

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AUTHORIZATION

MS CHAPTER 429

- General Obligation Improvement Bonds
- General Obligation Permanent Improvement Revolving Fund Bonds
- Temporary Bonds

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AUTHORIZATION

MSA 429 Authorized Purposes:

- streets
- sidewalks
- sewer systems
- water systems
- street lights
- parks
- flood control
- gas & electric systems
- district heating
- others

Sources of Revenue:

- At least 20% special assessments
- Any other source of revenue

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AUTHORIZATION

G.O. Improvement Bond Characteristics:

- 20% of project required to be assessed
- Does not count against debt limit
- Is not subject to levy limits
- Does not require a referendum
- Debt Service Fund versus PIR Fund
- Max term = 30 years for Improvement Bonds, three years for Temporary Bonds

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AUTHORIZATION

MS CHAPTER 475.58

- General Obligation Street Improvement Bonds

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AUTHORIZATION

Authorized Purposes:

- street reconstruction
- utility replacement / relocation
- turn lanes & other improvements related to safety
- Overlay Projects
- modifications to state and county roads
- cannot widen or add curb & gutter where none previously existed

Sources of Revenue:

- Typically property taxes

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AUTHORIZATION

Street Reconstruction Bond Characteristics:

- 5 – year street reconstruction plan required
- Issuance of Bonds requires unanimous approval of Council
- Subject to debt limit
- Does not require a direct referendum however it is subject to the “Reverse Referendum” process
- Outside of levy limits

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AUTHORIZATION

MS CHAPTER 469.1812 – 469.1815

- General Obligation Tax Abatement Bonds

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AUTHORIZATION

Authorized Purposes:

- Increase or preserve tax base
- Provide employment opportunities
- Provide or help acquire or construct public facilities
- Help redevelop or renew blighted areas
- Help provide access to services for residents of the City
- Finance or provide public infrastructure
- Phase in a property tax increase on the parcel

Sources of Revenue:

- Typically property taxes

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AUTHORIZATION

Tax Abatement Bond Characteristics:

- The total abated taxes in any year cannot exceed the greater of 10% of net tax capacity of City or \$200,000
- Generally the term of abatement is for 15 years or less. It can be extended to 20 years if one of the other political subdivisions is requested to participate and declines
- The total principal amount of the abatement bonds cannot exceed the estimated sum of the abatements granted
- Not subject to debt limit
- Not subject to levy limits
- Do not require a referendum

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CC Work Session

4.3.

Meeting Date: 07/09/2013

By: Colleen Lasher, Administrative Services

Title:

Discussion Regarding the Economic Development Manager Position

Background:

The purpose of this case is to summarize the Economic Development Manager recruitment efforts thus far and to identify a future course of action regarding this position.

As the City Council is aware, staff recently went through two recruitment and interview processes in an effort to seek an exceptional economic development professional, the details of which are summarized below:

- Initially, the application period ran from February 20, 2013 through March 13, 2013
- The City received fourteen applications
- Six interviews were scheduled, one applicant withdrew, five interviews were held, followed by three finalist interviews

- Subsequently, the application period was extended beginning May 17, 2013 through June 19, 2013
- The City received eight applications (three of which were new applications and five were duplicate applications received during the first application period)
- Two applicants were interviewed which did not result in a finalist

Advertising efforts were conducted via the following sources:

- League of Minnesota Cities
- Star and Tribune Online - Business/Management/Marketing/Government, as well as outreach to diversity organizations
- MinnesotaWorks.Net
- E.D.A.M. - Economic Development Association of Minnesota
- N.A.H.R.O. - National Association of Housing and Redevelopment Officials
- City of Ramsey website (Employment and In the News)
- City of Ramsey employment email notifications (approximately 2500 subscribers)
- Community Sign on Highway 10
- QCTV Cable Television
- "TUG" list serve (To HR professionals in Metro to pass along)
- In house email sent to employees to pass along to potential applicants
- Emails sent to the City's Firefighters and Reserve Officers

Wages/Position Description:

The Economic Development Manager position was advertised with full pay scale (\$67,753 to \$84,690 D.O.Q.) which is the top pay for this type of position (without supervisory responsibilities) in comparably sized cities. The salary range is equal to that of the previous "Economic Development and Marketing Manager" position. However, the current position description was modified to include regular support from other key staff, less emphasis on marketing, albeit more emphasis on real estate transactions.

Going forward, (option #1 below) the City Council may choose to direct staff to utilize the professional services of Springsted Incorporated, a professional search firm. Springsted Incorporated comes highly recommended and was the firm selected to conduct the recent QCTV Executive Director search. If so directed, Springsted would develop a profile and job announcement for the position, develop a recruitment strategy and provide outreach to prospective candidates. They would emphasize the great sense of opportunity this position offers, to market the City's "A New

Day -- A New Beginning" as a economic development platform which could provide an economic development professional a chance to really shine in the economic development arena; especially with regard to the COR; as well as to reach out-of-state talent.

Observations/Alternatives:

Option 1: Continue recruitment efforts by utilizing the professional services of Springsted Incorporated, clarifying the role of this position, developing a profile and job announcement for the position, developing a recruitment strategy and providing outreach to prospective candidates. As part of this effort, staff would recommend some slight revisions to the Position Description that focus on the management of the Housing and Redevelopment Authority's (HRA) real estate assets in the position's role as HRA Executive Director, while clarifying the many of the housing-related functions that apply citywide (non-real estate transaction related) are currently managed by the Community Development Department.

Option 2: Continue recruitment efforts as described in option #1, to the best of the City's internal abilities and resources, without the assistance of Springsted. This could include a revision to the Position Description related to housing activities as noted in Option #1.

Option 3: Discontinue all recruitment efforts until February or March of 2014; which may allow time for the market to refresh, producing a more viable applicant pool.

Option 4: Direct staff to draft a proposal to fill the role of the economic development manager internally; which would include utilizing brokers to market properties and hiring an employee(s) to back fill. This could include a revision to the Position Description related to housing activities as noted in Option #1.

The City Council could also choose to consider elements and combinations of the four (4) options above.

Recommendation:

Staff recommends Option 1 above.

Funding Source:

Option #1: The funding required to utilize the search firm is estimated to be \$3800 to \$6800 (see page 3 of attachment) and would be funded through the salary savings of the unfilled Economic Development Manager position.

Options #2-4: The funding required for options 2-4 is yet to be determined, based on discussion.

Council Action:

Approve Option 1, based upon discussion, to continue recruitment efforts by utilizing the professional services of Springsted Incorporated, clarifying the role of this position, developing a profile and job announcement for the position, developing a recruitment strategy and providing outreach to prospective candidates.

Attachments

RFP - Springsted

Form Review

Inbox
Kurt Ulrich

Reviewed By
Kurt Ulrich

Date

07/03/2013 03:37 PM

Form Started By: Colleen Lasher

Started On: 07/02/2013 04:00 PM

Final Approval Date: 07/03/2013



Springsted Incorporated
380 Jackson Street, Suite 300
Saint Paul, MN 55101-2887

Tel: 651-223-3000
Fax: 651-223-3002
www.springsted.com

LETTER OF TRANSMITTAL

July 3, 2013

Mr. Kurt Ulrich, City Administrator
Ms. Colleen Lasher, Human Resources Manager
City of Ramsey
7550 Sunwood Drive, NW
Ramsey, Minnesota 55303

Re: **Request for Proposal to Provide Executive Search Services for an Economic Development Manager**

Dear Mr. Ulrich and Ms. Lasher:

Thank you for requesting a work plan to assist in the recruitment and selection of an Economic Development Manager for the City of Ramsey.

The attached work plan outlines our recommended approach to recruit an Economic Development Manager. Please feel free to call me at 651-223-3053 after you have had a chance to review the work plan. We are open to revising the work plan as needed to ensure a smoothly executed search and adjusting the project schedule as needed to meet the City's needs.

We appreciate the opportunity to work with the City of Ramsey to fill this important position.

Sincerely,

A handwritten signature in blue ink that reads 'Sharon G. Klumpp'.

Sharon G. Klumpp, Senior Vice President
Consultant

kmd

City of Ramsey, Minnesota
Work Plan to Provide
Executive Search Services for an Economic Development Manager

I. Scope of Services

Objectives

Objectives for the Economic Development Manager search include:

- Develop a profile and job announcement for the Economic Development Manager position
- Develop a recruitment strategy and provide outreach to prospective candidates
- Assist the City in the screening and initial evaluation of candidates

Springsted recommends an eight-step process for recruiting and selecting an Economic Development Manager:

1. **Workshop** — Springsted will conduct a group meeting with individuals designated by the City to learn about the goals and objectives of the City’s economic development program and identify the qualities the City is looking for in its next Economic Development Manager. This meeting will provide an opportunity to review the essential functions of the position, discuss the expectations for this position and identify desired leadership and management capabilities. We will also suggest revisions to the position description for the City’s consideration, if appropriate.
2. **Position Profile and Job Announcement** — Information obtained from the workshop, our review of the position description and other City documents will be used to prepare a position profile. We review salary information for comparable positions in similarly sized communities and in recent placements to assist the City in determining any adjustments that may be required to the salary range to ensure the position is competitive with the marketplace. The completed profile and job announcement will be submitted to the City for approval before recruitment begins. The position and community profile will be central to our recruitment; as well as candidate outreach. Sample position profiles are available upon request.
3. **Recruitment and Targeted Outreach** — Springsted will prepare a job announcement and coordinate placement of the ad with professional associations. We recommend that ads be placed as follows:
 - Websites for the Cities of Andover, Anoka, Champlin and Ramsey
 - League of Minnesota Cities and similar websites in neighboring states
 - International Economic Development Council
 - Economic Development Association of Minnesota (EDAM) similar websites in neighboring states
 - Minnesota City/County Management Association (MCMA) similar websites in neighboring states
 - Minnesota Chapter of the National Association of Housing Redevelopment Officials Public Management Assistants
 - Other publications and websites identified in consultation with the City
 - www.springsted.com

Springsted's recruitment efforts will emphasize personal contacts with qualified individuals to present this position to them and discuss the reasons they should apply for this position. These efforts will ensure that qualified individuals who are not necessarily looking for a job will be aware of the Economic Development Manager position and encouraged to apply.

4. **Serve as Point of Contact** — Springsted will receive and document all applicant materials and handle all inquiries about the position. We will acknowledge each application received and keep applicants informed of their status in the process. Periodic updates will be provided to the project manager and the City throughout the recruitment process to keep officials informed of the response to the job announcement.
5. **Applicant Screening and Evaluation** — Springsted conducts an impartial and objective review of each application to determine those applicants who most closely meet the City's desired qualifications. We recommend that each applicant for the position be required to complete a City application form as well as a supplemental application that can be used to determine each applicant's Training and Experience Rating as required by the Minnesota Veterans' Act. Springsted will develop the supplemental application and ranking criteria in consultation with the City. We rate each application on a T & E Rating spreadsheet and discuss the results with the City to determine the initial group to be reviewed.

Evaluation of the top candidate will also include an Internet search and a telephone screening interview with a Springsted consultant. Written summaries of the screening interview will be prepared and submitted to the City. Springsted will assist the City in selecting candidates who will be invited to interview with the City.

6. **Reference and Background Records Checks** — Springsted will verify past employment and conduct reference checks, for all candidates who have accepted the invitation to interview for the position; the City will be provided with a supplemental report outlining information obtained from references. We will coordinate the background records check with Setter & Associates, a company that specializes in pre-employment screening. The background records check consists of a review of driver's licenses and criminal histories, educational verification, a credit check and a review of civil judgments. Background checks may be conducted for all of the candidates prior to their interviews with the City or the City can make its hiring decision contingent upon a satisfactory background records check.
7. **Develop Interview Process** — Springsted will develop interview questions in consultation with the City. Interview questions will be structured to learn more about the candidate's experience, his/her understanding of the City of Ramsey's economic development goals and objectives as well as current projects and issues, his/her approach to building effective working relationships with stakeholders and his/her management style. Springsted will also be responsible for scheduling candidate interviews.

Springsted will not be in attendance at the interviews unless the City requests this additional service.

8. **Employment Offer** — After the City has identified its top candidate, Springsted will assist in developing an employment offer, if requested. We will present the employment offer to the successful candidate in accordance with direction received from the City. Springsted will continue to keep all candidates apprised of this last phase of the selection process. This step in the process becomes extremely important if, for any reason, the top candidate declines the offer. Once the successful candidate has accepted an employment offer, Springsted will notify all other candidates of the appointment.

II. Project Schedule

A tentative project timetable is provided below to illustrate the time allowed for each step of the process. We are happy to revise this schedule as needed to meet the City’s needs.

Project Milestone	Proposed Date
Notice to proceed	July 9, 2013
City Workshop	Week of July 22, 2013
City approves profile / announcement	Week of July 29, 2013
Recruitment and candidate outreach	July 31 – September 4, 2013
Applicant screening	September 3 – September 13, 2013
Written candidate report submitted to the City	Week of September 16, 2013
Selection of candidates to be interviewed	Week of Septembers 23, 2013
Springsted conducts reference checks	September 23 – September 30, 2013
City interviews candidates	Week of September 30, 2013
City authorizes employment offer contingent on background report	Week of October 7, 2013
Effective start date (estimated 14-30 day notice to current employer)	October 21 – November 12, 2013

III. Professional Fee and Out-of-Pocket Costs

Springsted will provide the executive search services listed above in Items 1-8 for a professional fee of \$9,000, excluding out-of-pocket costs. Out-of-pocket costs, which include miscellaneous expenses for such things as advertising, mileage, postage, overnight delivery and copying, are estimated to be approximately \$1,200. The cost for a background records check is \$400 each.

Two pricing options are also provided. Under **Option 1**, Springsted would perform Items 1-4 for a professional fee of \$3,800 and up to \$1,200 for advertising and other miscellaneous costs. **Option 2** includes Items 1-4 for a professional fee of \$3,800 and Item 5; the professional fee for Item 5 will be \$500 for each candidate screening interview that the City asks Springsted to conduct. For

example , if the City requests screening interviews for six candidates, the professional fee would be \$3,800 plus \$3,000 for the six screening interviews.

IV. Search Team

Sharon G. Klumpp

Senior Vice President and Consultant



Ms. Sharon Klumpp, who specializes in organizational and management consulting for public agencies, will be the lead consultant on this project. Since joining Springsted eight years ago, she has conducted over 60 public sector executive searches and a broad array of organizational management studies. In addition, Ms. Klumpp has extensive government experience, having held a variety of positions including Executive Director of the Metropolitan Council, Associate Executive Director for the League of Minnesota Cities, City Administrator for Oakdale, Minnesota and Assistant City Manager in St. Louis Park, Minnesota and Saginaw, Michigan. Ms. Klumpp is a member of the International City/County Management Association (ICMA) and has served as the chair of the Ramsey County Charter Commission. She holds a master's in public administration from the University of Kansas and a bachelor's degree in political science from Miami University (Ohio).