REGULAR CITY COUNCIL WORK SESSION

October 17, 2017
Rear Council Meeting Room
4100 Lakeview Avenue North
Robbinsdale, Minnesota
Immediately following the 7:00 p.m. City Council meeting

A G E N D A

---

1. CITY COUNCIL WORK SESSION CALLED TO ORDER BY MAYOR PRO TEM
2. ROLL CALL: Blonigan, Rogan, Selman, Backen, Mayor Murphy
3. PRESENTATION: Utility Rate Study
4. DISCUSS: North Memorial Bonds Requested 2017 & 2018
5. DISCUSS: Prosecution RFP
6. UPDATE: Bottineau marketing/PR campaign strategy
7. ADJOURNMENT

EHLERS
LEADERS IN PUBLIC FINANCE

City of Robbinsdale Financial Study

City of Robbinsdale

Jessica Cook – Ehlers
Kristina Norquist – Ehlers

10/17/2017

Agenda

- **Overview: Why a Financial Plan?**
- **Traffic and Transportation**
  - Capital Improvement Plan and Key Assumptions
  - Existing Funds and Resources
  - Tax Impacts
- **Utilities**
  - Capital Improvement Plan and Key Assumptions
  - Existing Funds and Resources
  - User Impacts
- **Bringing It All Together**
- **Next Steps**

Overview: Why a Financial Plan?

- **Council can focus on long-term financial health of the City**
  - Good roads, facilities, services, reinvestment, etc.
  - Not on single-year impacts
- **Projects, in the context of multi-year planning, tend to be less controversial**
  - Provides framework to make informed decisions
  - Shows financial impact of actions

Work Product Completed

- Capital Improvement Needs Assessed
- Built model to determine financial sustainability
  - “Living model” that can be changed depending on circumstances
  - Includes analysis of several City funds:
    - Permanent Improvement Revolving Fund (Streets)
    - Water Fund
    - Sanitary Sewer Fund
    - Storm Sewer Fund
- Model will be long-term forecasting tool for City

Traffic and Transportation

Identify CIP for 71 miles of local roads and alleys

Assess capacity of existing funds to complete projects

Develop a funding strategy

Capital Projects – Streets

Streets Capital	2017	2018	2019	2020	2021	2022
Capital Outlay with Inflation	$2,763,110	3,482,253	6,535,552	4,710,987	3,223,931	4,581,313
Bonding Needed	**$755,287**	**2,000,000**	**4,000,000**	**4,000,000**	**2,900,000**	**4,000,000**

Streets Capital	2023	2024	2025	2026	2027	Total
Capital Outlay with Inflation	$3,864,765	4,374,930	3,488,603	3,479,442	3,044,862	43,549,748
Bonding Needed	**$3,500,000**	**3,000,000**	**3,000,000**	**2,500,000**	**2,700,000**	**32,355,287**

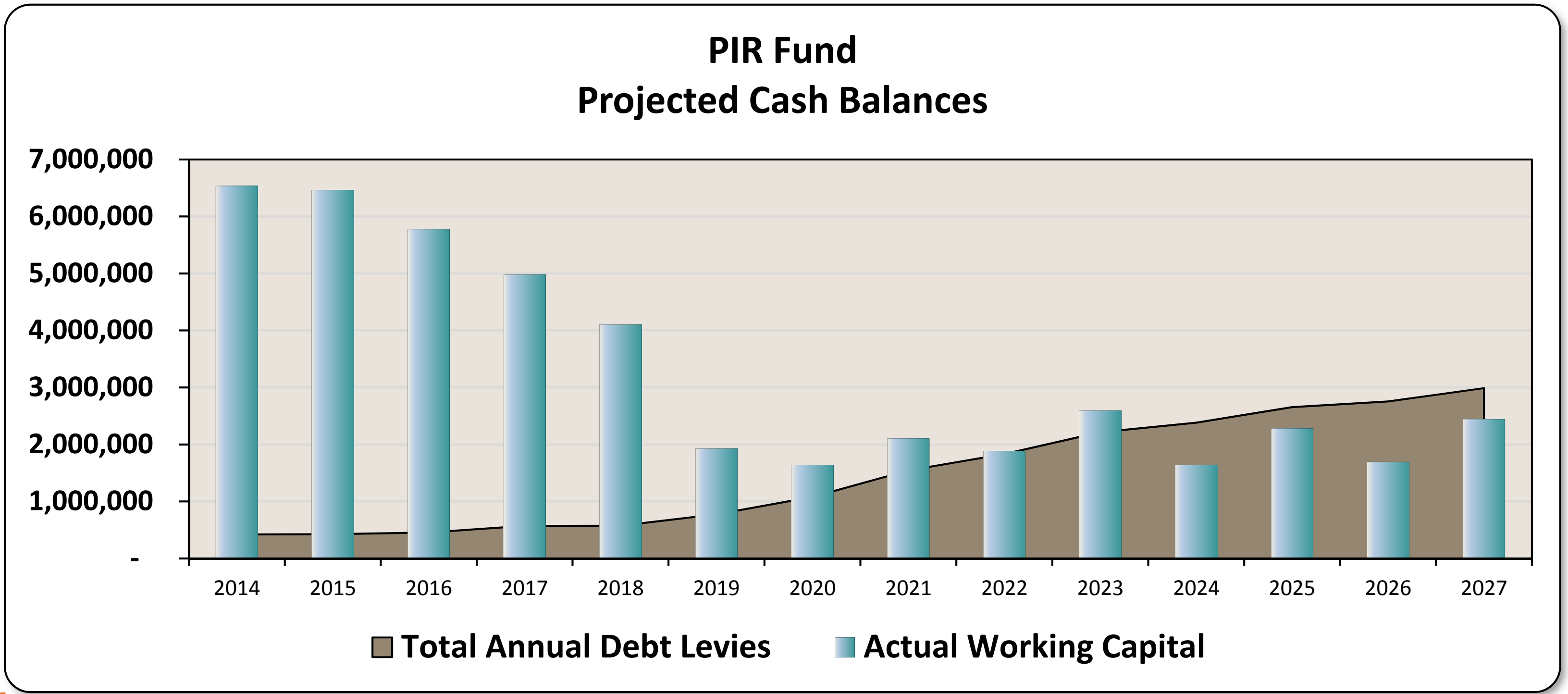
- **Average annual cost of $3.96M**
- Capital costs assumed to inflate 4% per year
- 74% of projects financed with bonds

Street Project Assessments

- Local street projects are assessed (about 1/3 of all projects)
- Plan assumes 30% of project costs are assessed to benefitting property owners
  - Assessed over 10 years
  - Assessment rate is True Interest Cost (TIC) plus 2.0%
  - Example: If TIC on bonds is 2.5%, assessment rate will be 4.5%
- Projects financed as needed with 10-year bonds
- Unassessed portion paid for by property taxes
- Assumes 100% of utility reconstruction is paid for from Utility Funds

Financial impacts

- Measured financial impact of street projects on:
  - Fund balance of PIR Fund
  - Tax levy needed to fund projects



EHLERS
LEADERS IN PUBLIC FINANCE

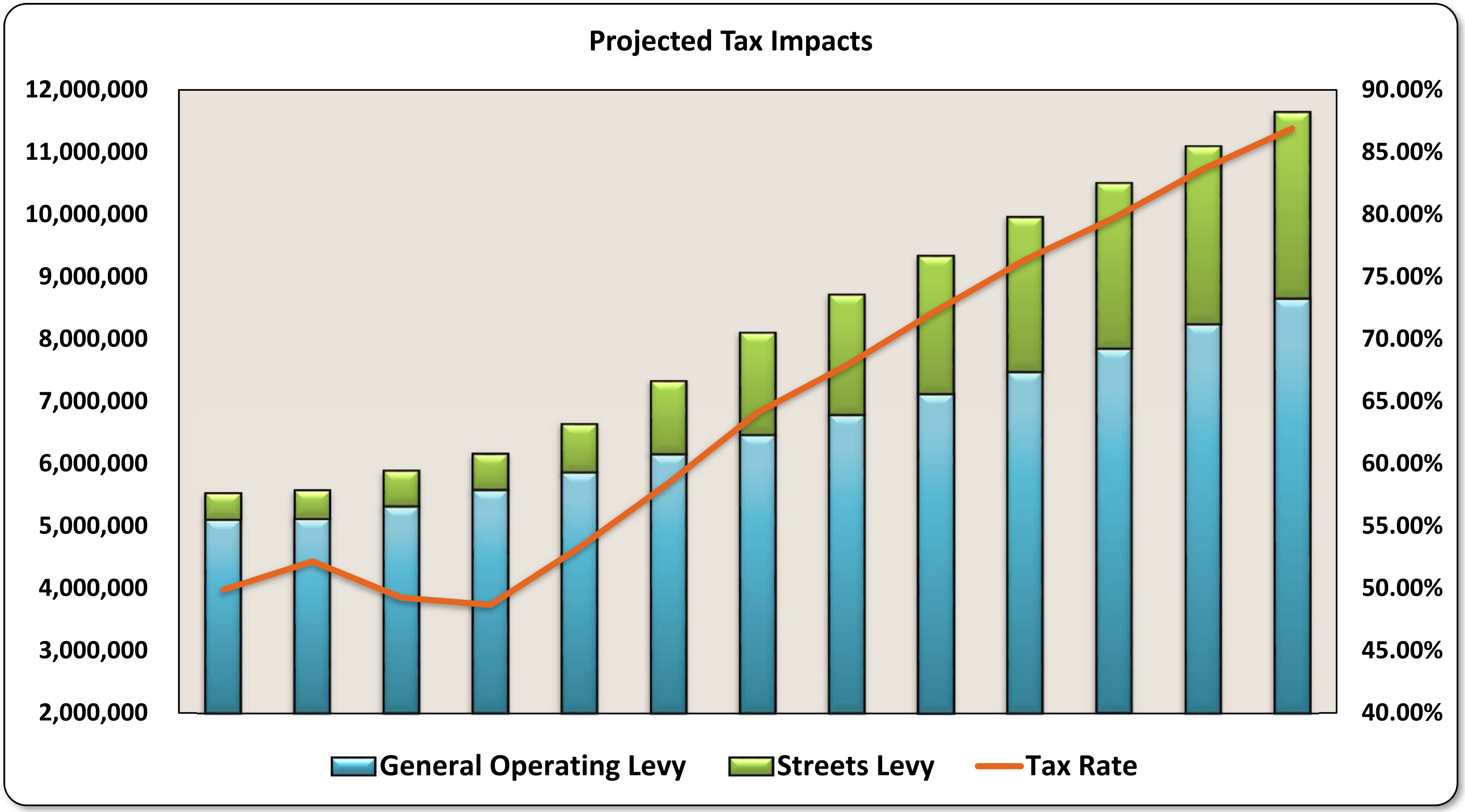
Future Property Tax Levy

Tax Levy Trends	Actual 2016	Actual 2017	Preliminary 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022
General Fund Operating	5,114,500	5,309,272	5,574,736	5,853,472	6,146,146	6,453,453	6,776,126
Streets - Additional Levy for Road Resheeting Program	-	-	-	100,000	150,000	100,000	100,000
Current Debt	454,696	572,259	571,209	569,634	446,264	454,139	452,444
Future Debt for Streets	-	-	4,082	204,630	631,634	1,089,868	1,380,059
Net City Levy to Taxpayers	**5,569,196**	**5,881,531**	**6,150,027**	**6,727,736**	**7,374,044**	**8,097,461**	**8,708,629**
Tax Rate on Tax Capacity	**52.161%**	**49.247%**	**48.674%**	**53.279%**	**58.448%**	**64.117%**	**67.900%**
Tax Rate % Change	4.57%	-5.59%	-1.16%	9.46%	9.70%	9.70%	5.90%

- Assumes 5% growth in General Fund Operating Levy
- Assumes 1% growth in tax base
- Historical tax rate decline is due to growth in market values

EHLERS
LEADERS IN PUBLIC FINANCE

Property Tax Levy



EHLERS
LEADERS IN PUBLIC FINANCE

Tax Impact on Median Valued Home ($173,000)

Year	Annual City Tax	Increase/(Decrease) from Prior Year	
		Annual	Monthly
2016	$ 635.84	$ 11.30	$ 0.94
2017	664.83	28.99	2.42
2018	736.43	71.60	5.97
2019	816.24	79.81	6.65
2020	905.94	89.70	7.47
2021	1,006.64	100.70	8.39
2022	1,079.62	72.98	6.08

Home value of $173,000 inflates 1% annually

EHLERS
LEADERS IN PUBLIC FINANCE

Utility Funds

- They are Enterprise Funds
  1. Should pay for
     - ✓ Capital Outlays
     - ✓ Operations
     - ✓ Replacement Reserves
     - ✓ Debt
  2. Should be “flush” with cash
  3. Have a minimum of:
     - ✓ 6 months of operations (not including depreciation)
     - ✓ Following year’s bond/debt payments
     - ✓ Funding for capital equipment and projects

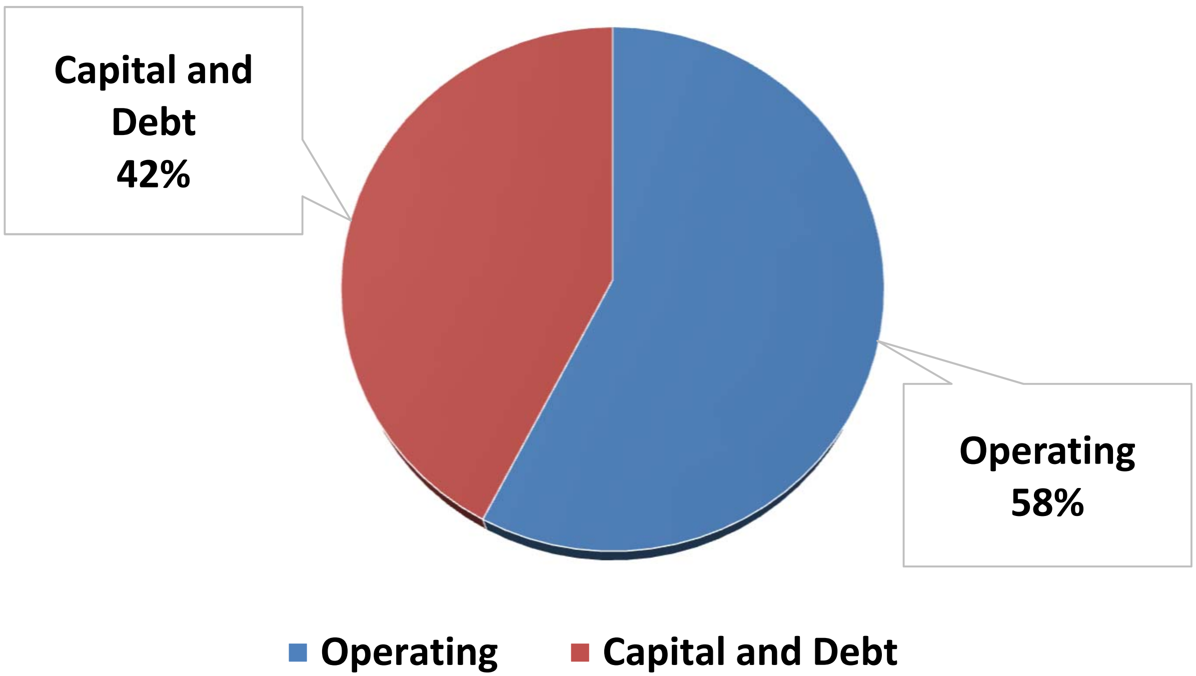
Utility Funds

- Adequate revenue and cash balances in utility funds are important:
  1. Maintain the City's AA+ rating
  2. Avoid sudden rate increases in the future
  3. Maintain City services including:
     - ✓ Combined 113 miles watermains, sanitary sewer lines and storm sewer
     - ✓ 5 drinking water wells
     - ✓ 3 water treatment plants
     - ✓ 13 lift stations

- Sewer and Storm have insufficient cash balances

2016 Water Fund Expenses (excluding depreciation)

$183,599 Capital Assets Purchased in 2016



EHLERS
LEADERS IN PUBLIC FINANCE

Key Assumptions for Water Analysis

- Future capital costs average $1,976,000 per year
  - $7,027,000 for street reconstruction projects over ten years
  - $4,580,000 for new Gravity Treatment Plant by 2020
  - $1,200,000 for replacement of City Wide Water Meters by 2021
  - $1,540,000 for reconstruction of Water Tower No. 1 by 2024
- 3% inflation on City's operating expenses per year
- 4% inflation on capital costs per year
- 80% of projects financed with bonds
- No revenue from future redevelopment

Proposed Residential Water Rates

		2017	2018
Base Fee		**$10.02**	**$10.72**
		Rate per 1,000 Gallons	**Rate per 1,000 Gallons**
Capital Surcharge		**$0.55**	**$0.59**
Tier 1	0-12,000	**$2.96**	**$3.17**
Tier 2	12,001-26,000	**$3.97**	**$4.25**
Tier 3	26,001-40,000	**$5.15**	**$5.51**
Tier 4	Over 40,000	**$7.54**	**$8.07**

Proposed Water Rates

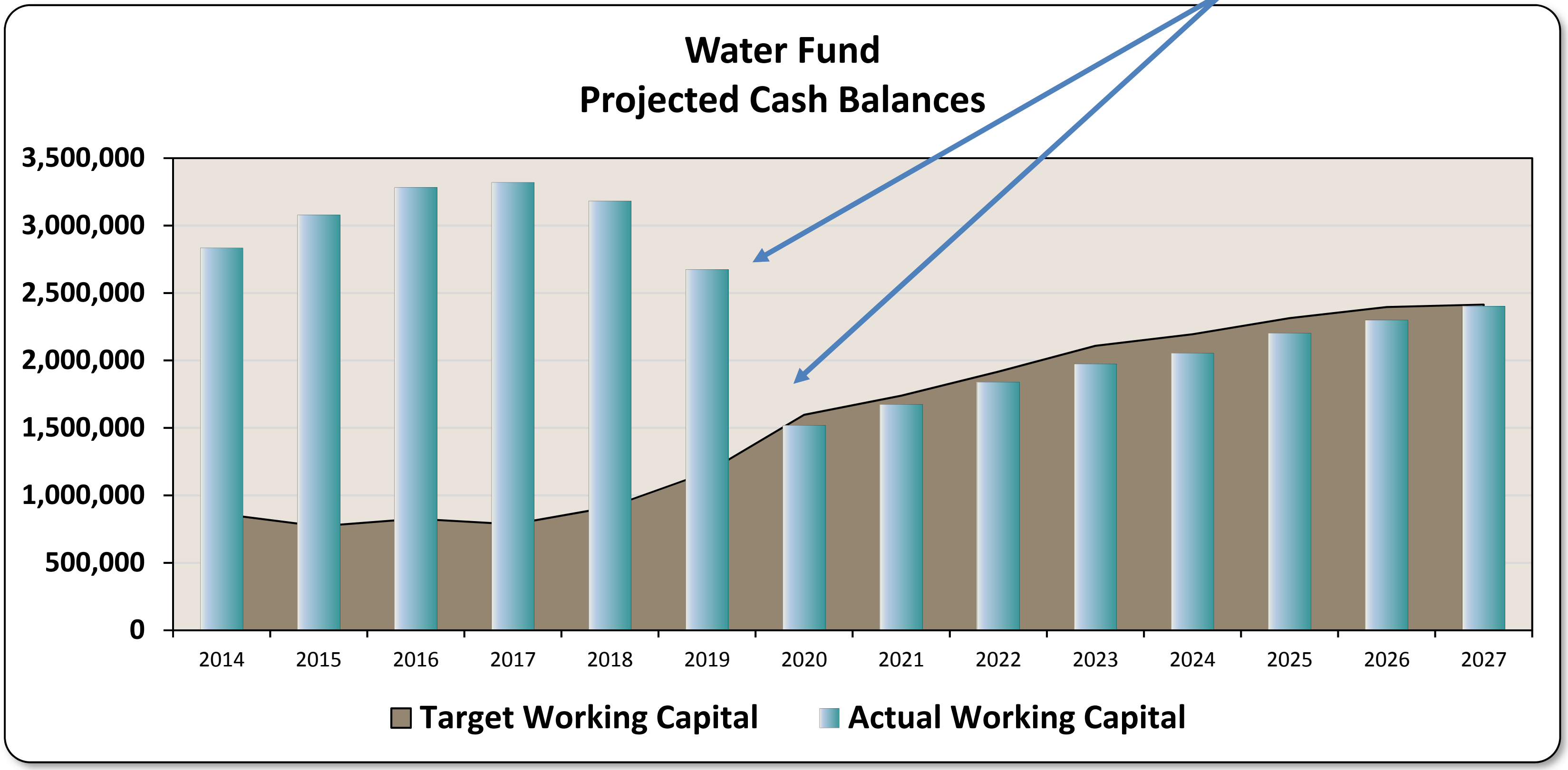
- Recommended increase 7.00% annually
- Bill for residential customer discharging 15,000 gallons bi-monthly will increase
  - $2.30 per month
  - $27.60 per year

	Existing	Proposed Bi-Monthly Bills			
	2017	2018	2019	2020	2021
UTILITY BILL EXAMPLES					
Residential Property					
Water (15,000 gallons/bi-monthly)	**$ 65.70**	**$ 70.30**	**$ 75.22**	**$ 80.49**	**$ 86.12**

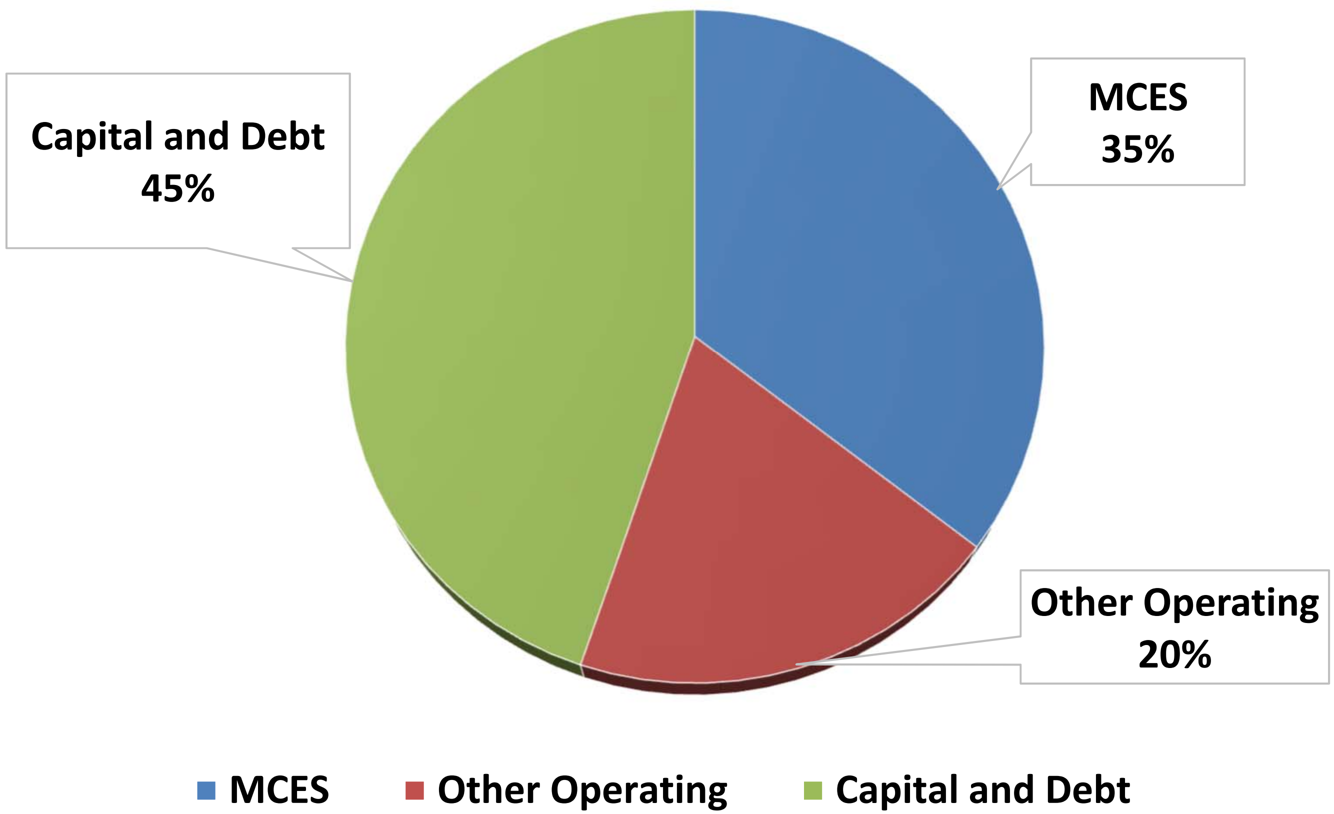
EHLERS
LEADERS IN PUBLIC FINANCE

Maintains Health of Water Fund

Use cash on hand to for capital projects and limit bonding to $10M per year



2016 Sanitary Sewer Expenses



Key Assumptions for Sanitary Sewer Analysis

- Future capital costs average $1,243,000 per year
  - $7,754,000 for street reconstruction projects over ten years
  - $150,000 for Lift Station No. 3 in 2018
  - $440,000 for Bottineau Light Rail Utility Replacements by 2019
  - $420,000 for vehicles and other improvements by 2021
- 3% inflation on City’s operating expenses
- 5% inflation on MCES disposal charges
- 98% of projects financed with bonds
- No revenue from future redevelopment

Proposed Sanitary Sewer Rates

- Confirmed need for revenue increases in 2018

Base Fees	2017	2018
Residential	$14.96	$16.46
Commercial	$14.96	$16.46
	Rate per 1,000 Gallons	**Rate per 1,000 Gallons**
All Usage	$4.33	$4.76

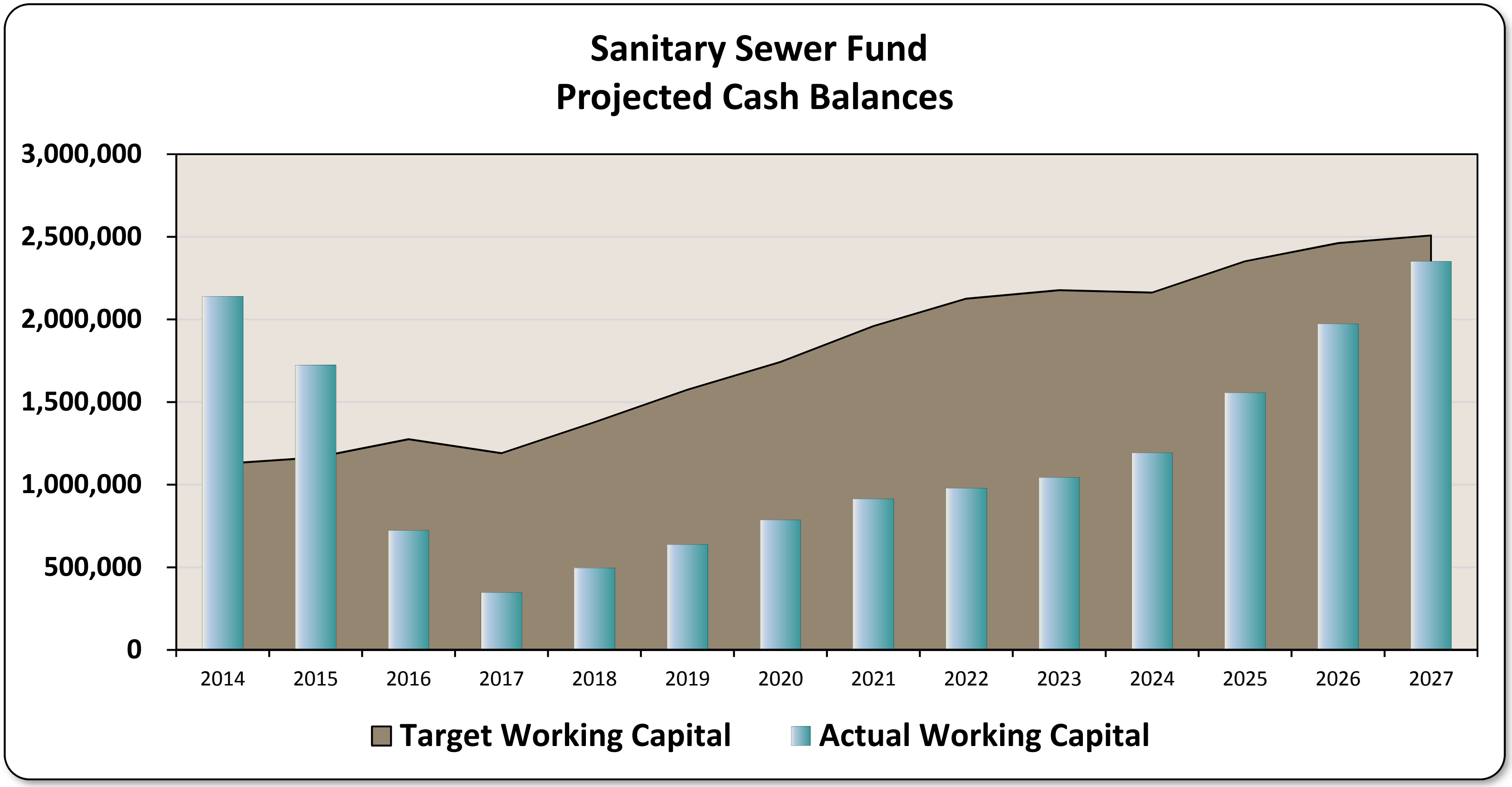
Proposed Sanitary Sewer Rates

- All charges increase 10% annually 2018 – 2020
- 7% annual increases in 2021 and after
- Bill for residential customer discharging 7,500 gallons bi-monthly will increase
  - $2.37 per month
  - $28.44 per year

	Existing	Proposed Bi-Monthly Bills			
	2017	2018	2019	2020	2021
UTILITY BILL EXAMPLES					
Residential Property					
Sewer (7,500 gallons/bi-monthly)	**$47.44**	**$52.18**	**$ 57.40**	**$ 63.14**	**$67.56**

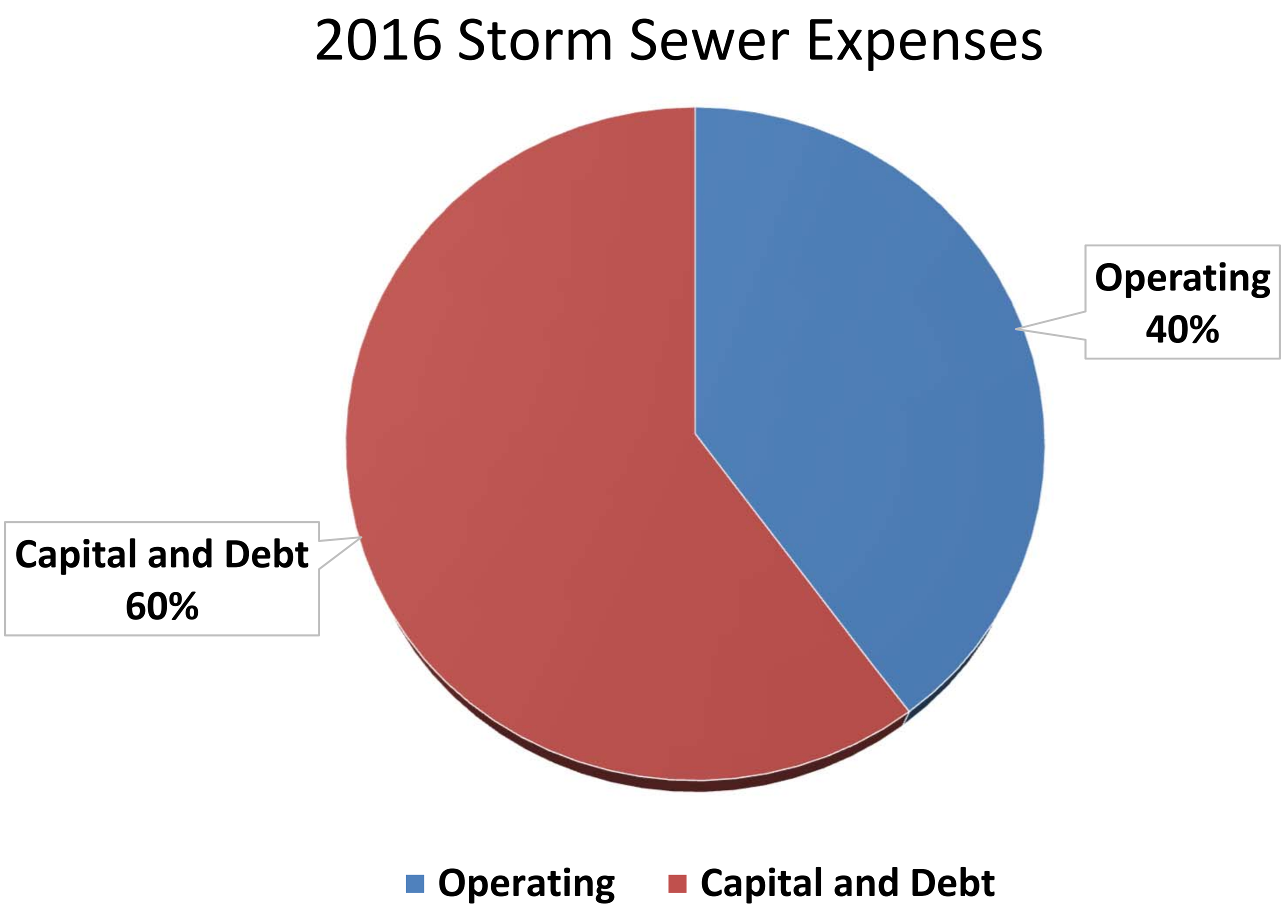
EHLERS
LEADERS IN PUBLIC FINANCE

Restores Health of Sanitary Sewer Fund



Target working capital = 6 months operating expenses (excluding depreciation) plus next year's debt

Capital Driving Need for Rate Increases



EHLERS
LEADERS IN PUBLIC FINANCE

Key Assumptions for Storm Sewer Analysis

- Future capital costs average $1,097,000 per year
  - $6,087,000 for street reconstruction projects over ten years
  - $110,000 for Bottineau Light Rail Utility Replacements by 2019
  - $200,000 for France Ave GPT on Mainline by 2021
  - $437,000 for Pond Dredging, Weed Treatment and other improvements by 2022
- 3% inflation on City's operating expenses per year
- 4% inflation on capital costs per year
- 90% of projects financed with bonds
- No revenue from future redevelopment

Proposed Storm Sewer Rates

Base Fees	2017	2018
<u>Residential</u>		
Fee for .18 Acre	$19.64	$21.60
<u>Commercial</u>		
Fee per Acre	$109.11	$120.02

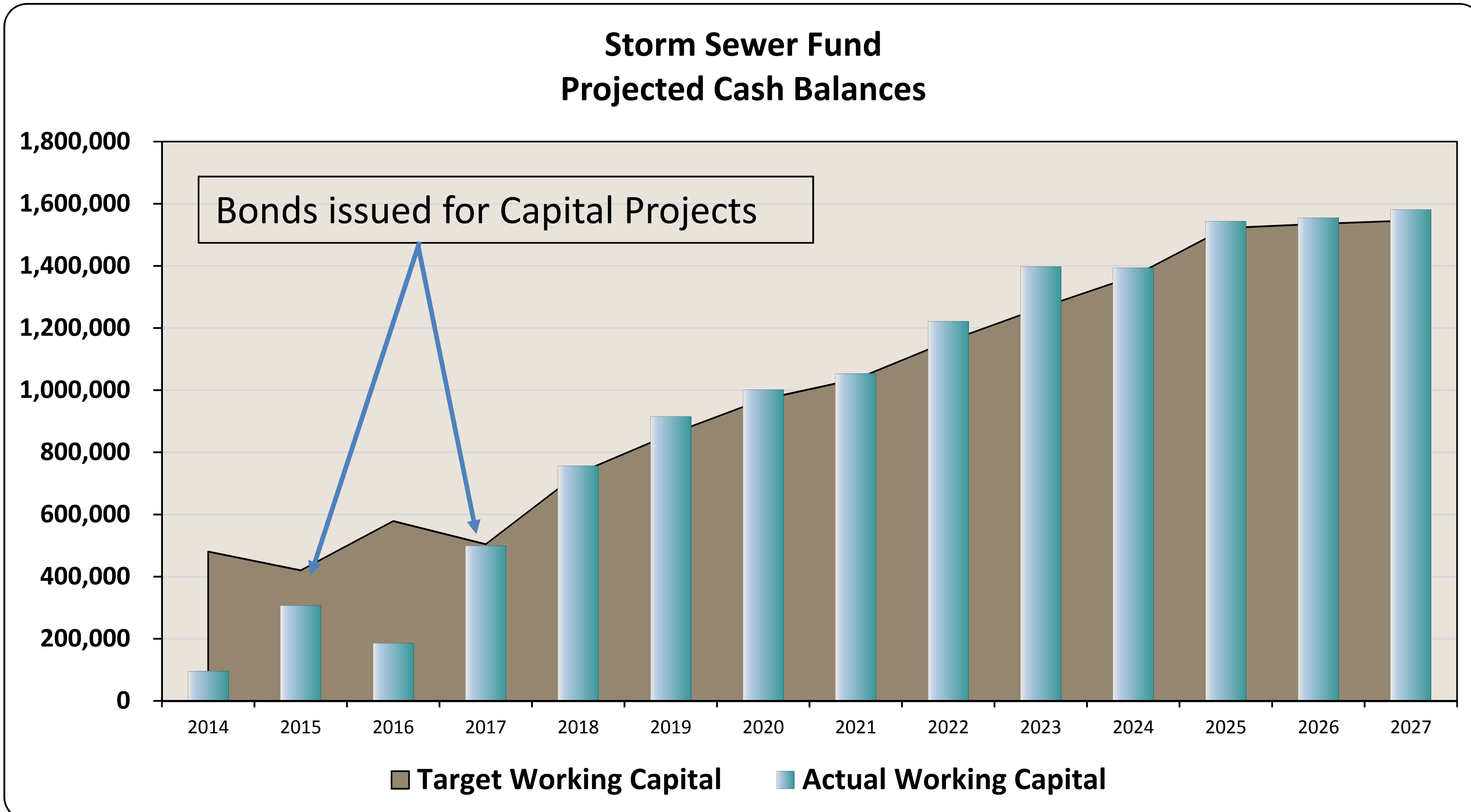
Proposed Storm Sewer Rates

- Recommended increase 10% for 2018
- All charges increase 9% annually 2019 – 2020
- All charges increase 8% annually after 2020
- Bill for residential customer will increase
  - $0.98 per month
  - $11.78 per year

	Existing	Proposed Bi-Monthly Bills			
	2017	2018	2019	2020	2021
UTILITY BILL EXAMPLES					
Residential Property					
Storm Water	**$19.64**	**$21.60**	**$23.55**	**$25.67**	**$27.72**

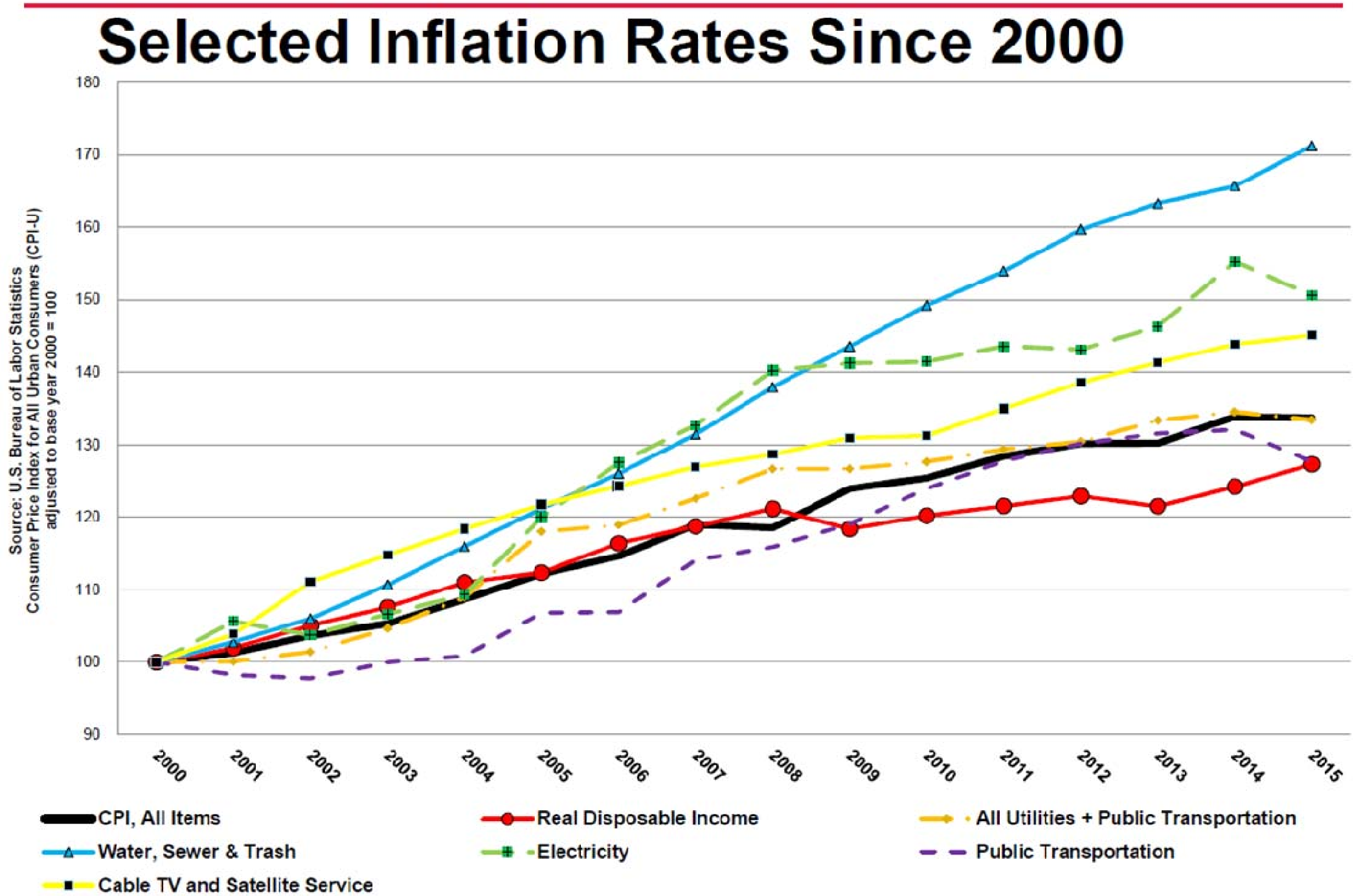
EHLERS
LEADERS IN PUBLIC FINANCE

Impact on Storm Sewer Fund



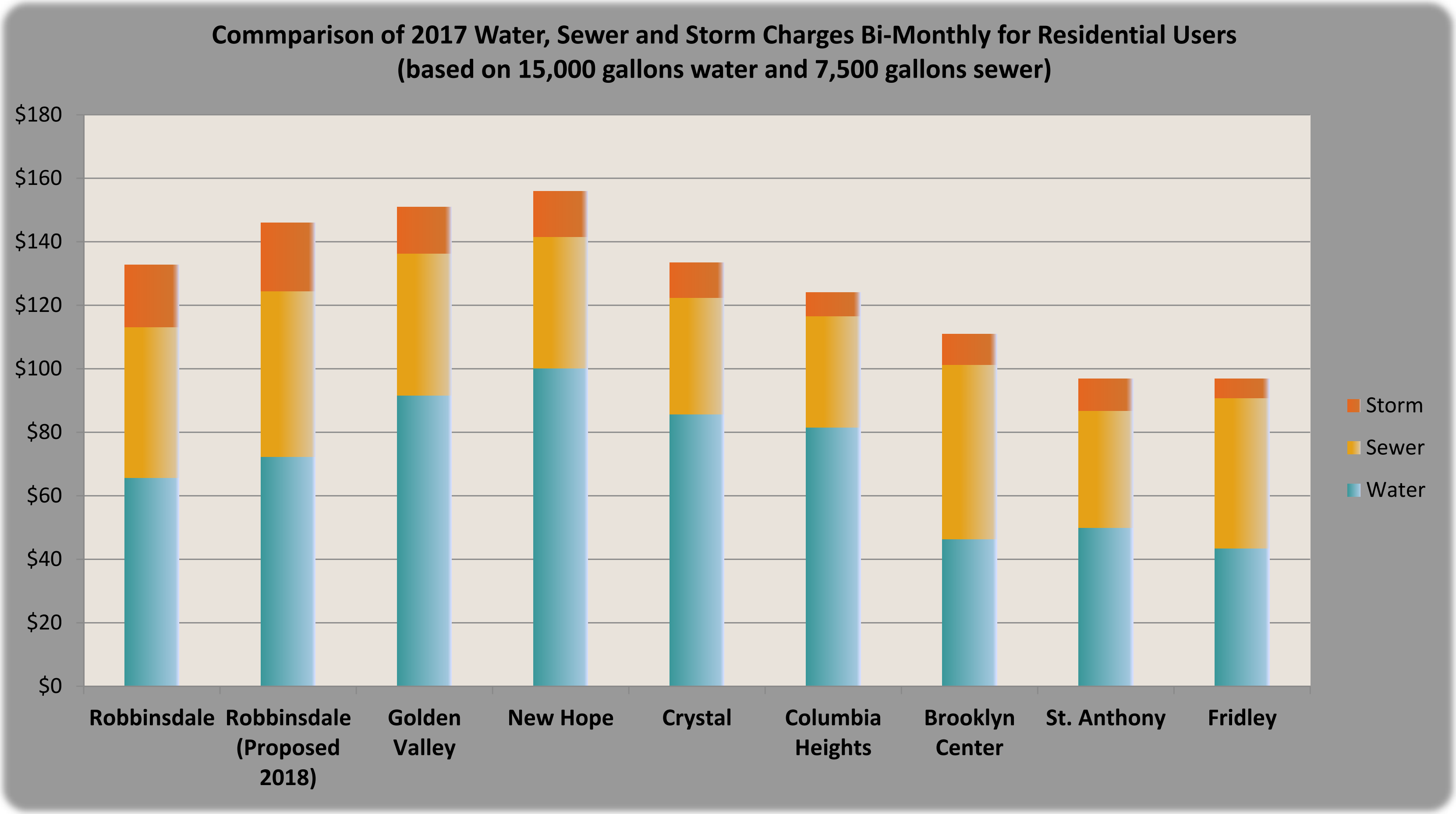
EHLERS
LEADERS IN PUBLIC FINANCE

National Trends



STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Sample Bill Comparison



EHLERS
LEADERS IN PUBLIC FINANCE

Bringing It All Together

- Total Residential Impact Analysis

	Existing	Proposed Annual Impact			
	2017	2018	2019	2020	2021
$173K Residential Homestead Property					
Water (15,000 gallons/bi-monthly)	$ 394.20	$ 421.80	$ 451.32	$ 482.94	$ 516.72
Sewer (7,500 gallons/bi-monthly)	284.64	313.08	344.40	378.84	405.36
Storm Sewer	117.84	129.62	141.29	154.01	166.33
Property Taxes - City Portion	664.83	736.43	816.24	905.94	1,006.64
Total Annual Cost	**$1,461.51**	**$1,600.93**	**$1,753.25**	**$ 1,921.72**	**$2,095.04**
$ Increase/(Decrease)		**139.42**	**152.31**	**168.47**	**173.32**
% Increase/(Decrease)		**9.5%**	**9.5%**	**9.6%**	**9.0%**

EHLERS
LEADERS IN PUBLIC FINANCE

Bringing It All Together

- Total Commercial Impact Analysis

	Existing	Proposed Annual Impact			
	2017	2018	2019	2020	2021
$500K Commercial Property					
Water (45,000 gallons/bi-monthly)	$ 1,007.82	$ 1,078.38	$ 1,153.86	$ 1,234.62	$ 1,321.02
Sewer (45,000 gallons/bi-monthly)	1,258.86	1,384.74	1,523.22	1,675.56	1,792.86
Storm Sewer (1 acre, 75% impervious)	1,964.00	2,160.40	2,354.84	2,566.77	2,772.11
Property Taxes - City Portion	3,132.60	3,417.37	3,780.70	4,191.85	4,647.84
Total Annual Cost	**$18,795.57**	**$ 20,504.20**	**$ 22,684.19**	**$ 25,151.13**	**$ 27,887.05**
$ Increase/(Decrease)		**1,708.63**	**2,180.00**	**2,466.93**	**2,735.92**
% Increase/(Decrease)		**9.1%**	**10.6%**	**10.9%**	**10.9%**

Summary

- Increased Capital Expenses
  - Aging infrastructure
    - Study includes combined $84.0M inflated project costs during 2018-2027
    - Combined $69.5M of bonding during same period
- Self-supporting utilities will require revenue increases in order to fund street reconstruction projects, maintain infrastructure and operations
- Heavy reliance on bonding will be required to sustain $8,395,000 average annual streets and utility project costs
- Consider annual updates to the Study to determine progress

Next Steps

- Tonight – Council Feedback
  – Discuss findings and initial recommendations presented
- Ehlers to incorporate feedback into revised plan
- Review updates and adopt long-term funding strategies

EHLERS

LEADERS IN PUBLIC FINANCE

Jessica Cook

Financial Specialist

651-697-8546

jcook@ehlers-inc.com

Kennedy & Graven
CHARTERED

Offices in Minneapolis
Saint Paul
St. Cloud

470 U.S. Bank Plaza
200 South Sixth Street
Minneapolis MN 55402-1458
(612) 337-9300 telephone
(612) 337-9310 fax
www.kennedy-graven.com
Affirmative Action, Equal Opportunity Employer

JULIE A. EDDINGTON
Attorney at Law
Direct Dial (612) 337-9213
Email: jeddington@kennedy-graven.com

October 12, 2017

Marcia Glick
City of Robbinsdale, Minnesota
4100 Lakeview Avenue North
Robbinsdale, MN 55422

Re: Consideration of the issuance of refunding bonds for the benefit of North Memorial Health Care to refund the Health Care Facilities Revenue Refunding Bonds (North Memorial Health Care), Series 2011A and Series 2011B

Dear Marcia,

North Memorial Health Care, a Minnesota nonprofit corporation ("NMHC"), has requested that the City of Robbinsdale (the "City") issue refunding bonds to refund the Health Care Facilities Revenue Refunding Bonds (North Memorial Health Care), Series 2011A (the "Series 2011A Bonds") issued in the amount of $60,000,000 and the Health Care Facilities Revenue Refunding Bonds (North Memorial Health Care), Series 2011B (the "Series 2011B Bonds," and collectively with the Series 2011A Bonds, the "Series 2011 Bonds") issued in the amount of $15,000,000. The Series 2011 Bonds refunded a 2008 bond issue that refinanced a 2003 bond issue that financed (i) the acquisition, construction, renovation, equipping, and improvement of the acute care hospital facility of NMHC located at 3300 Oakdale Avenue North in the City; (ii) the acquisition, construction, renovation, equipping, and improvement of outpatient care facilities of NMHC located at 3435 West Broadway Avenue North in the City; and (iii) the redemption and prepayment of certain outstanding indebtedness of NMHC.

The Series 2011A Bonds are refundable now without a prepayment penalty. NMHC has asked if the City would consider issuing bonds in the amount of approximately $39,300,000 to refund the Series 2011A Bonds before the end of the year.

The Series 2011B Bonds are refundable now with a 3% prepayment penalty. However, a reset date will occur on May 1, 2018, and on that date, NMHC may refund the Series 2011B Bonds with no prepayment penalty. NMHC has asked if the City would consider approving the issuance of refunding bonds to be issued on May 1, 2018 in the amount of approximately $9,800,000 to refund the Series 2011B Bonds.

If the City is willing to move forward with the two refundings described above, NMHC asks that the City Council hold a public hearing on the bond issuance at its meeting on November 21, 2017. Following the public hearing, the City Council would consider a resolution approving the bond issuance and all related documents for both refunding bonds. The refunding bonds issued to refund the Series 2011A Bonds would be issued shortly after November 21, 2017. The refunding bonds issued to refund the Series 2011B Bonds would be issued on May 1, 2018 (in order to avoid the prepayment penalty).

The Borrower will pay the City's administrative fee for conduit bonds for both bond issues. The City's administrative fee for refundings is 0.125% of the principal amount of the bonds paid on the date of issuance and a fee of 0.125% of the outstanding principal amount of the bonds paid annually.

In addition, if the City determines to issue its own general obligation bonds next year, and the City is unable to issue its general obligation bonds as "bank qualified" bonds, NMHC will compensate the City for the difference between the interest it must pay on the bonds for bonds not issued as bank-qualified versus the interest rate the City would have paid if the bonds were issued as bank-qualified. Issuing general obligation bonds as bank-qualified bonds allows banks to buy the bonds and claim the interest on the bonds as tax-exempt. Bank-qualified bonds generally provide cities with a lower interest rate compared to bonds that are not bank-qualified. At this time, though, we believe that the refunding bonds proposed to be issued in 2018 for the benefit of NMHC can be structured to avoid impacting the City's ability to issue bank-qualified bonds in 2018.

I will attend the meeting on Tuesday, October 17, 2017 if there are any questions regarding the request for conduit bonding. Please contact me if you have questions regarding the foregoing.

KENNEDY & GRAVEN, CHARTERED

Julie Eddington