



City Council Memorandum

To: Mayor Fasbender & City Council Members
From: Melanie Lammers- Finance Manager
Date: May 4, 2020
Item: Bonding and Construction Projects Update

Council Action Requested:

A look at funding options available for our 2020 street reconstruction project.

Background Information:

The 2020 Budget and 2020-2024 Capital Improvement Plan included several construction projects scheduled to start in 2020. Our largest street infrastructure project included bonding as a funding source. See attached memo from City Engineer Ryan Stempski regarding 2020 street infrastructure project.

During the 2020 budget/tax levy process, staff had projected an increase of around 4.7% would be needed in 2021 to address inflationary increases (3%) and continue with our capital plan items for 2021 which includes equipment, technology, park and trail improvements, facility maintenance needs; and debt service for both existing debt as well as the 2020 debt issuance. The debt service levy was projected to increase about \$185,000 or 6.13%. This increase reflected additional debt for fire equipment, City Hall maintenance, and roughly \$185,000 for the 2020 street infrastructure projects first debt payment.

Debt	2020 Tax Levy	2021 Tax Levy	Estimated Change
Existing Debt	\$2,773,681	\$2,528,681	-\$245,000
2020 Debt Issuance-Street	\$0	\$185,000	\$185,000
2021 projected debt	\$2,773,681	\$2,943,681	\$170,000

Based on some preliminary calculations for the 2020 debt issuance and assuming a ten-year term for the bonds, the first levy for 2021 is estimated to be about \$185,000. There are some options we can consider that will mitigate the increase in debt service and the special assessment collection including the following:

- Extend the term of repayment for both the city portion and the assessed portion
 - 10-year versus 15-year term
- Timing and amount of first bond principal payment
 - 2022 versus 2023
- Timing and amount of first tax levy
 - 2021 versus 2022

There are pros and cons for any of the options. Staff worked with Northland Securities to see what the financial impact would be if any of the options were implemented.

Attached is the "Summary of Scenarios" prepared by Northland. It reflects three scenarios for discussion purposes. The descriptions for each scenario are included in the "Description" column.

The following chart shows the variance in the total interest paid for the bonds and the 2021 tax levy if going with an option other than scenario A:

Scenario	Interest	Variance from Scenario A	Utility Revenue first year	2021 Tax Levy	Variance from Scenario A
A	\$449,140		\$145,527	\$185,000	
B	\$753,450	\$304,310	\$104,882	\$125,000	(60,000)
C	\$856,725	\$407,585	\$104,138	\$ 80,000	(105,000)

Special assessments

Extending the debt to a 15-year repayment would be the extension of the special assessments over a 15-year period as well. This reduces the yearly amount due for each property by 1/3 each year.

Our special assessments are currently \$769,115 for the 2020 street project. The assessments for each property are determined by an independent appraisal of how much value the improvement adds to the property parcel. To meet the threshold for our improvement bonds, we must have 20% of our project be comprised of special assessments. Our project assessments are currently at 25% of project costs. This means Council could chose to lower the assessments by 5%. Below are some generic examples of what a 5% decrease would look like for a single assessment. A 5% decrease is a total reduction of \$38,456.

Assessment	5% reduction	New assessment
\$3,278.40	(163.92)	\$3,114.48
\$5,103.00	(255.15)	\$4,847.85
\$7,212.86	(360.64)	\$6,852.22

Another option available for our property owners with special assessments are the grants available from Dakota County CDA. Grants are awarded based on low and moderate level income households.

- We have a total of approximately \$71,000 available for the 2020 street project
- Joblessness alone isn't an automatic for qualifying, but it does play into the evaluation for applications, in the way it has an impact on someone's projected household income for the year

Financial Impact:

By extending the term of the improvement portion from 10 to 15 years, this would cost an additional \$304,310 of interest. It would also reduce the tax levy by \$60,000.

By delaying the first principal payment by one year (from 2022 to 2023) would cost an additional \$407,585 in interest, but it would also reduce the tax levy by \$105,000.

Attachments:

Memo Public Hearing 2020 Neighborhood Infrastructure Improvements Program
Summary of Scenarios from Northland Securities



City Council Memorandum

To: Mayor Fasbender & City Council Members
From: Ryan Stempski – City Engineer
Date: February 25, 2020
Item: Conduct Public Hearing & Consider Resolution to Order 2020 Neighborhood Infrastructure Improvements and to Authorize Advertisement for Bids

COUNCIL ACTION REQUESTED

Council is requested to conduct a public hearing regarding the proposed scope and features of City Project 2020-1, the 2020 Neighborhood Infrastructure Improvements. Additionally, the Council is requested to consider adopting the enclosed resolution ordering this project, approving the plans, and authorizing advertisement for bids. This is a City-initiated project, therefore by MN Statute, a supermajority (six of seven votes) of the Council must vote in favor of the resolution in order to approve it.

BACKGROUND - PROPOSED IMPROVEMENT PROJECTS & DESIGN FEATURES

The 2020 Neighborhood Infrastructure Improvements Project includes a variety of improvements within two separate geographic areas, 15th Street from Pine Street to Tyler Street and the Cannon Street Area (including Cannon Street from Vermillion Street to 22nd Street, 22nd Street, 23rd Street, 24th Street, and 25th Street).

The project scope identifies reconstruction of 15th Street, 23rd Street, 24th Street, and 25th Street.

The project scope also identifies reclamation, which consists of grinding up and mixing the existing pavement surface with the underlying gravel and placement of new pavement over that mixture, of Cannon Street and 22nd Street.

➤ **FULL STREET RECONSTRUCTION**

- Pavement – the pavement surfaces on these streets are extensively deteriorated and need replacement. Correction involves complete reconstruction of the street with new base material placed on an engineering approved surface, then finished with new pavement.
- The drainage system is inadequate and storm sewer needs upsizing, extensions, repairs, and replacements.
- Sanitary sewer and water systems are aged and are showing signs of failure, which need to be removed and replaced or rehabilitated to a depth of 8 feet or greater beneath the road surface.
- Curb and gutter – full replacement of curb and gutter would be included in the project to improve drainage and edge control of the street.

➤ **STREET RECLAMATION**

- Pavement – the pavement surfaces on these streets are extensively deteriorated and need replacement. These streets have adequate support structure to be able to grind up and reuse the pavement and base materials.
- The underground sanitary sewer and water systems have also been confirmed to be in good condition, and do not require us to dig up the street.
- The storm sewer system will have extensions, repairs, and replacements as necessary to improve the existing drainage.
- Curb and gutter – generally the curb and gutter is functional and in good condition. Spot repair of the curb and gutter will be completed as needed on these streets.

➤ **STREET WIDTHS**

- Streets that are to be reclaimed will remain at their existing width, as the existing curb and gutter will stay except for some areas of needed spot repairs. The reconstructed streets have the opportunity to be narrowed in some locations due to their excessive widths. Below is a table indicating existing street widths and proposed reconstructed widths.

Street Name	Between	Existing Width (ft)	Proposed Width (ft)	Notes/Rationale
15 th Street W	Pine to Ashland	±40	36	Meets State Aid standards for funding source, allows for parking on both sides, and the ability for a boulevard and sidewalk
15 th Street W	Ashland to Eddy	±44	36	Meets State Aid standards for funding source, allows for parking on both sides, and the ability for a boulevard and sidewalk
15 th Street W	Eddy to Vermillion	±44	44	Geometry cannot change due to turn lane requirements for the intersection
15 th Street E	Vermillion to Sibley	±44	44	Geometry cannot change due to turn lane requirements for the intersection
15 th Street E	Sibley to Tyler	±44	36	Meets State Aid standards for funding source, allows for parking on both sides, and the ability for a boulevard and sidewalk
23 rd , 24 th , & 25 th Street	Cannon to Vermillion	±36	36	No parking restrictions, some commercial property frontage, allows the ability to reuse portions of drainage system

➤ **PARKING NEEDS**

- Even with some narrowing of streets, all proposed street widths within the project area are of sufficient width to accommodate parking on both sides of the street.

➤ **SIDEWALKS**

- A replacement with ADA compliant pedestrian ramps and a grade separated boulevard is proposed along the south side of 15th Street W (Pine to Eddy). Any remnant sidewalk will be removed and replaced with grass boulevard. An extension with ADA compliant pedestrian ramps and a grade separated boulevard is proposed along both sides of 15th Street E (Sibley to Tyler). A sidewalk extension is also proposed along Cannon Street only within Cannon Park (between 31st and Hackberry).

➤ **UTILITY INFRASTRUCTURE**

- There are significant municipal utility reconstruction and rehabilitation elements planned for the streets that are proposed for full reconstruction:
 - Replacement of the existing water mains
 - Replacement and trenchless sewer lining rehabilitation on the sanitary sewer system
 - Excavated replacement of sewer and water services (from the main to property line)
 - Complete replacement and enhancement of the storm sewer system to significantly improve storm water drainage where it is needed

➤ **EXISTING TREES**

- There are several mature trees located within the boulevards of these neighborhood streets. During design and construction of the project, Engineering staff works directly with the City Forester to bring expertise in assessing tree conditions into the process. We make every effort to keep trees that are in good health by making adjustments in the infrastructure alignments, as the character of the neighborhood depends on these decisions.

➤ **OTHER ISSUES AND COMMENTS**

- **OPERATIONS COMMITTEE MEETINGS** – City staff met with the Operations Committee at three points in time throughout the design phase, the first of which occurred on October 21st, 2019. The Committee supported staff recommendations on the proposed improvements. The Committee did acknowledge that a sidewalk system separated from the curb would require a shift in snow removal responsibility to the property owner. To that effect, Staff gathered feedback from property owners that would be impacted by the proposed sidewalk at the Open House Meetings. The property owners that attended the Open House Meetings were supportive of the sidewalk design even with the change in snow removal responsibility. The Operations Committee met again on December 18th to get an update on the project scope and assessment methodology, and continued to give support and positive feedback. The final check-in with the Operations Committee was on February 11th, which occurred after feedback was received at the Open House Meetings. The Committee ultimately supported Staff to move forward with the public hearings and to full City Council for project approvals.
- **OPEN HOUSE MEETING** – City staff held open house hours on January 21st and 23rd at Resurrection United Methodist Church located directly on 15th Street. A total of 38 households (29% of the properties that would be impacted by the proposed project) attended either of the open house dates. A summary of the attendees' comments received at the open house meetings, along with City staff's responses, have all been attached for the Council's consideration. There was general support and positive reaction for the scope and features of the project.
- **ASSESSMENT RATES** – With 15th Street functioning as a collector road, assessments were calculated both at a 25% amount of the total eligible project costs (as outlined in the Ordinance) and as a recommendation by a real estate benefit appraiser. It was determined through the benefits appraisal analysis that supportable benefit amount would be lower than the 25% project cost formula and therefore that lower rate has been included in the preliminary assessment roll.
 - From the real estate benefit appraisal report, different rate categories were determined for the property type and street improvement (reclaim or reconstruct).
 - For the Cannon Area, with a character of properties and scope of improvements being very similar to what was performed in 2019 directly adjacent to this area, the assessment rates used in 2019 were also applied on these properties in 2020.
 - ***Assessments will be discussed in detail at the Council meeting to be held on April 6th.***

➤ **FUNDING**

- The project has a total cost estimate of nearly \$4.7 Million, including design, engineering, construction, and other project delivery overhead costs, as detailed in the Feasibility & Assessments Report delivered to the Council on February 3rd.
- The street, storm sewer, and surface restoration costs will be funded through Minnesota Statutes Chapter 429 bonded debt (about 40%) and Municipal State Aid System funds (about 16%), with utility systems costs sourced from utility revenue bonds (about 28%). Assessments are estimated to cover approximately 16% of the overall project costs. A funding mix summary will be presented during Monday evening's meeting.
- The project is tracking to be funded within the City's funding parameters for 2020.

➤ **SCHEDULE**

- The timeline for this project is to begin construction by May and wrap up in October.

COUNCIL ACTION REQUESTED

Council is requested to conduct the public hearing for the project and approve the resolution ordering the improvements, approving the plans, and authorizing the advertisement for bids.

ATTACHMENTS

- Resolution Approving the Project and Authorizing the Advertisement for Bids
- Project Map
- Neighborhood Meeting Comments & City Staff Responses

CITY OF HASTINGS

DAKOTA COUNTY, MINNESOTA

RESOLUTION NO. _____

**RESOLUTION ORDERING THE IMPROVEMENTS, APPROVING THE PLANS, AND AUTHORIZING THE
ADVERTISEMENT FOR BIDS FOR PROJECT 2020-1, THE 2020 NEIGHBORHOOD INFRASTRUCTURE IMPROVEMENTS**

WHEREAS, a resolution of the City Council adopted the 3rd day of February, 2020, ordered a hearing on the proposed infrastructure improvements on City Project 2020-1, and

WHEREAS, required mailed and published notices of the hearing were given, and the hearing was held thereon on the 2nd day of March, 2020, at which all persons desiring to be heard were given an opportunity to be heard thereon, and

WHEREAS, the City Council has provided City Staff direction on the final design features of said project.

NOW, THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF HASTINGS AS FOLLOWS; that

1. Such improvements are necessary, cost-effective, and feasible as detailed in the feasibility report.
2. Such improvements are hereby ordered as proposed and as amended by the City Council herein.
3. Plans and specifications for these improvements prepared by the Hastings City Engineer are hereby approved.
4. The City Engineer and City Clerk shall cause to be made a matter of record via this resolution any amendments to design features made by the City Council at the March 2, 2020 City Council meeting. The City Council hereby amends the project scope and plans as follows:

5. The City Engineer shall prepare and cause to be published on the Quest Construction Data Network web site and on the City of Hastings official web site an advertisement for bids for the construction of the approved Project 2020-1. The advertisement shall be published for three weeks, shall specify the work to be done, shall state that bids will be opened at Hastings City Hall on a date and time to be determined, and that no bids will be considered unless sealed and filed with the Clerk and accompanied by a cash deposit, cashier's check, bid bond, or certified check payable to the City of Hastings for 5% of the amount of each bid.

ADOPTED BY THE CITY COUNCIL OF HASTINGS, MINNESOTA, THIS 2nd DAY OF MARCH, 2020.

Ayes:

Nays:

Mary D. Fasbender, Mayor

ATTEST: _____

Julie Flaten, City Clerk

SEAL



Proposed City Project 2020-1

2020 Infrastructure Improvements



City of Hastings
 Summary of Scenarios
 General Obligation Bonds, Series 2020A (the "Bonds")
 Scenarios for Preliminary Planning Purposes Only ¹

Scenarios	Description	Total Par Amount ⁷	Term (Years) ²	Total Interest Life of Bonds	Estimated True Interest Cost ³	First Year Principal Due for Improvement Portion ⁴	Last Year of Payment on the Bonds	Special Assessment Revenue First Year ⁵	Tax Levy P&I First Year ⁶	Utility Revenue First Year ⁶
A	Based on historical type of structure for the City with 10 year terms	\$3,665,000	10/10	\$449,140	2.18%	2022	2031	\$98,855	\$180,155	\$145,527
B	Extend term for Improvement Portion and Utility Portion to 15 year terms to reduce annual Tax Levy	\$3,665,000	15/15	\$753,450	2.43%	2022	2036	\$71,445	\$124,533	\$104,882
C	Extend first principal payment on Improvement & Utility Portion by one year, from 2022 to 2023	\$3,665,000	15/15	\$856,725	2.48%	2023	2037	\$71,700	\$125,026	\$104,138

Notes that Apply to all Scenarios:

1	Scenarios are based on the City issuance of the Bonds to include three portions to finance the following construction costs: a) Improvement Portion to finance \$2.355 million of street improvements supported by special assessments and tax levy; and b) Sewer Portion to finance \$.545 million of sewer infrastructure improvements supported by net revenues of the Sewer Fund; c) Water Portion to finance \$0.765 million of water infrastructure improvements supported by net revenues of the Water Fund.
2	Term (Years) refers to the total number of principal payments, term by portion (Improvement Portion/Sewer Portion/Water Portion).
3	Preliminary interest rates on the bonds estimated based on 'AA' BQ rates as of April 24, 2020, plus 0.50%. This is for planning purposes only. Final rates will vary and be based on market conditions at time of issuance of the bonds.
4	First Year Principal Due is for all portions. Scenario C assumes the City would levy in 2020 for interest payments due in 2021 on the Improvement Portion. Interest would also be due in 2021 on the Utility Portions.
5	Special assessment revenue is based on the following, as listed below. The City plans to spread the assessments over 10 years (Option A), or over 15 years (Option B & C). <u>Option A</u>) Special assessment revenue is based on assessments totaling \$796,115, spread in equal principal payments over 10 years and assessed at a rate of 3.65%. First payment collected in 2021. <u>Option B</u>) Special assessment revenue is based on assessments totaling \$796,115, spread in equal principal payments over 15 years and assessed at a rate of 3.90%. First payment collected in 2021. <u>Option C</u>) Special assessment revenue is based on assessments totaling \$796,115, spread in equal principal payments over 15 years and assessed at a rate of 3.95%. First payment collected in 2022.
6	Tax Levy First Year includes levy to pay principal and interest on the Improvement Portion, net of the special assessment revenue to be collected only. It is NOT relective of the interest payment due in 2021 on the Improvement Portion, which is assumed to be levied for in 2020 for collection in 2021.