

**CITY OF FRIDLEY
HOUSING AND REDEVELOPMENT AUTHORITY COMMISSION
May 5, 2016**

CALL TO ORDER:

Chairperson Commers called the HRA Meeting to order at 7:00 p.m.

ROLL CALL:

MEMBERS PRESENT: Lawrence Commers
William Holm
Pat Gabel
Stephen Eggert
Gordon Backlund

OTHERS PRESENT: Paul Bolin, HRA Assistant Executive Director
Wally Wysopal, City Manager
Jon Lennander, Assistant City Engineer
Shelly Peterson, Finance Director
Scott Hickok, Community Development Director
Jim Casserly, Development Consultant
Bruce Schwartzman,

ACTION ITEMS:

1. Approval of Expenditures

MOTION by Commissioner Gabel to approve the expenditures as presented. Seconded by Commissioner Eggert.

Commissioner Eggert asked what the larger expenditures for CEE was for.

Paul Bolin, HRA Assistant Executive Director, replied that those are for loans through the loan program.

UPON A VOICE VOTE, ALL VOTING AYE, CHAIRPERSON COMMERS DECLARED THE MOTION CARRIED UNANIMOUSLY

2. Approval of March 3, 2016 Meeting Minutes

MOTION by Commissioner Holm to approve the minutes as presented. Seconded by Commissioner Backlund.

UPON A VOICE VOTE, ALL VOTING AYE, CHAIRPERSON COMMERS DECLARED THE MOTION CARRIED UNANIMOUSLY

INFORMATIONAL ITEMS:**1. Municipal Center Update**

Scott Hickok, Community Development Director, stated that since the Columbia Arena site planning workshops were completed in the spring of 2015, city staff have been evaluating construction of the new Municipal campus on the site. The City Council authorized hiring BKV group, an architectural firm, to start designing a new campus that would include police, fire and public works, along with the City's administrative functions. This step is not a commitment to ultimately build the project, but is necessary to help determine a final cost that will then allow the Council to decide if they would like to move forward with the project. To further refine the potential costs, the Council has also authorized staff to select a Construction Manager through an RFP process.

Mr. Hickok noted that the city has also worked with Braun Intertec and other consultants to identify potential environmental and soil issues on the City's fire training facility and public works sites adjacent to the HRA Property. The City Finance Director, Shelly Peterson and a representative from Ehlers Associates will also discuss the potential of financing the Municipal Center through the issuance of Lease Revenue Bonds by the Authority. Under this scenario, the Authority would issue bonds that would be backed up by the pledge of the City's lease payments.

Mr. Hickok stated that there is a great deal of work to be completed, by November, so that City Council can then make a decision on whether or not to proceed with constructing a new Municipal Center in the spring of 2017. Staff is working on the creation of the TIF District for this site in anticipation of the private development that can also be built on the site.

Bruce Schwartzman, BKV Architects, stated that this is very exciting. His company has done a lot of government buildings but has not had a lot of opportunities to do a town, which is what this is. This destination or gathering place will redefine the City of Fridley and the housing component will help businesses thrive.

Commissioner Holm asked if staff was talking about hiring a construction manager soon.

Mr. Hickok replied that the proposals are due back by 10:00 a.m. tomorrow and they are in the breakpoint predesign phase, getting the project to a price and then waiting for a green light from the City Council. Then the project will enter a construction drawing phase and the construction manager would transition to oversee the bidding and the construction phase. A construction manager is a new type of methodology that is approved for public use. Staff doesn't just assume all is a green light to move forward with this project. Council and the HRA ultimately decide if this project will go forward. If they vote yes, then the project moves into construction drawings and construction.

Commissioner Holm asked how you would put someone at risk before you know the scope of the project.

Mr. Schwartzman replied that the tours that have been going on are considered the predesign phase and site features. The predesign phase will go through the end of June to provide a vision of the site. Once this is done and presented to Council there will be a public

meeting to present ideas to the city and get input from the residents. From there we go to the schematic design phase to refine the buildings and site planning. Design visions will be shared to decide what the campus and buildings will look like. After that we go into the design development which is when the design of the site and development of buildings are worked on with the construction manager to put together more solid numbers. Late winter the city will put out for bids which is a good time frame to get contractors in place before spring.

Commissioner Holm understands the construction on a project like this but the “at risk” component is quite a concept.

Wally Wysopal, City Manager, replied that bringing in a construction manager in at this point makes sure that the constructability is taken into place. The value side is looked at as much as possible and the construction manager will receive a lump sum payment. If at a future date in November/December the project is approved based on the construction managers total price, it gives some comfort knowing what the financing piece will be.

Chairperson Commers asked what would happen to the initial numbers if they change up or down and how that is controlled. He asked what the liability was in that situation.

Mr. Wysopal replied that generally speaking, it is the construction managers job to make it work.

Commissioner Holm said that it is up to the city to make sure they don't add on bunch of extras to increase the cost above original cost.

Mr. Schwartzman stated that cost estimates will be done throughout the process and they would try to identify as many unknown costs as possible.

Commissioner Backlund asked if the construction manager was at risk and if there was any incentive or penalty process.

Mr. Wysopal replied that staff would look at that as they open the bids and make the final contract with them.

Commissioner Backlund is nervous about the timing of this project as there is a risk of higher prices because most larger construction projects are in place for the season. He encourages to not have this project drag into February because costs may increase once people set work schedules out. He also hopes that the wetland is taken into consideration and it is able to be kept full. He hasn't seen a construction manager in a project before and hopes staff takes caution for conflict of interest regarding estimates.

Jon Lennander, Assistant City Engineer, noted that the pond is a major part of what we are doing and will be part of the design project. Groundwater in the area is fairly shallow and there could be issues with the pond staying full. A liner or augmentation from Rice Creek could be considered; there are a number of things staff is looking at. Water in the pond could also be used for other things like irrigation. Regarding the construction manager and the cost of the project; you pay what it costs. If the cost is lower the construction manager doesn't keep the difference but if the project runs over the price; that is on them.

Commissioner Backlund asked if there was an incentive for the construction manager.

Mr. Lennander replied that in general a lot of contracts have went away from incentives and penalties. The price will be figured out fairly early and this fall we will know the price of the project. There are penalties for meeting schedule deadlines but not for liquidating damages.

Mr. Schwartzman added that they have steered away from liquidated damages because in the courts of law you need to prove how the owner has been damaged by the contractor being late. He has a comfort level and they will hit the dates they are going to hit. Incentives can be considered with contractors as there may be a value to getting done early. That may be something to be discussed. At this point in time, incentives or penalties would not be part of the contract.

Commissioner Backlund thought that these items are important and also to have long term consequences; the time to address them are when the documents are being put together.

Mr. Schwartzman replied it is something to explore.

Chairperson Commers asked what the predesign idea will be, what portion of the site will be included in the design and what the vision is for the design.

Mr. Schwartzman replied that they will look at the entire site to set the design layout and precedence. They will look at utilities and road structure, laying out framework for the entire site.

Commissioner Eggert noted that part of the risk is the schedule and upfront planning. He asked how the original schedule would be tracked.

Mr. Hickok replied that the architect would be brought on at the right time and to leave time on the design schedule to allow the finance director to understand the amount necessary in the bond so we know accurately what dollars are needed for this project.

Commissioner Eggert asked if given the schedule we are looking at if there was adequate time to do our due diligence.

Mr. Schwartzman replied that there isn't a ton of time but they have a lot of people dedicated to this project. 30-40 staff are engaged in this project already and he is the project manager. It is not an excessive amount of time, but appropriate.

Brian Riley, Ehlers and Associates, explained the interest rate environment and financing options they are considering. The most expedient path forward is to use the finance structure of lease revenue bonds. HRA would issue bonds and construct the project for ownership and construction. The City would enter into a lease agreement with the HRA to occupy and make lease payments back to the HRA that would be same as a debt service on the bonds. Payments pass through to the trustee or bank that acts as the representative of the bondholders.

Chairperson Commers asked what the understanding was for liability that the HRA would have in this transaction.

Mr. Riley replied that fundamentally the issuer of the debt would sign rights under the lease to the trustee. They can take control if there were a default. This would be subject to appropriation on part of the City. There really isn't any significant risk with the City.

Chairperson Commers asked if something happened that put the lease payments in default if the HRA would be responsible to the bond holders.

Mr. Riley replied yes, the trustee would have the facility occupied with a new renter but that would be unlikely.

Commissioner Backlund asked if this would have an effect on the rating for other activities that the HRA may have in either borrowing or bonding.

Mr. Riley replied that the city has a rating of AA1 and the higher rating is AAA. This is a significant debt issuance and we can funnel this through the score cards and see what comes out to give a sense on what that would be. One primary focus is there is a low debt and this will effect it. The HRA rating could go down one level. We can run the numbers and get back to the Authority with an estimate on where they would come out on the score card.

Commissioner Holm asked if this would be somewhat higher because it's a revenue bond and not a general obligation bond.

Mr. Riley replied yes, if we were to go to market right now with the size we are thinking in the 3% range the result would be favorable at this point.

Mr. Wysopal commented on the default concerns and noted that this building is for public purpose obligation. The City is not proposing to build a community center water park; this is for essential function of the City. He is not aware of any essential public bonds that have been defaulted on.

Mr. Riley replied not in Minnesota; some communities have walked around non-essential projects but not essential functions of government.

Mr. Wysopal added that is part of the reason why Council is considering this and asking for HRA participation. The timing is crucial as if there were a derailment for the Authority to issue debt that could mean a liability to cover bonds that would have to be placed in escrow until election time which could be two years away. It can get complicated. With a project of this magnitude we need as much certainty as possible.

Mr. Riley noted that this is a great time to be doing this because the interest rates are low right now.

Commissioner Eggert said that staff is talking about issuing bonds and having a construction loan or financing in place at the start of project but there is a big gap between the start of the project and the end.

Mr. Wysopal replied that currently we are expending funds for the site development. The City has earmarked funds we have not utilized for repair of the current building with

significant dollars put on hold and were authorized to use those funds when the debt is issued.

Commissioner Eggert asked if financing is being set in place at the start of construction.

Mr. Wysopal replied that the bonds would be issued this year to get on taxes payable next year.

Mr. Riley said that they would lock in the rates when they are comfortable with the financing amount.

Commissioner Eggert asked when the first payment would be due on the bonds.

Mr. Riley replied that would be figured that out as we get closer to the planning.

Chairperson Commers asked if collection wouldn't happen for two years.

Jim Casserly, Development Consultant, said that the debt would be authorized this year and a schedule will be designed for collecting taxes next year that goes into your levy in 2017.

Mr. Riley added that this would be levied in 2016, collected 2017 and the first payment in early 2018.

Chairperson Commers asked if the lease payments were capital expenditures.

Shelly Peterson, Finance Director, replied that the lease payments are not capital expenditures.

Commissioner Eggert noted that the intention of the financing this year gives you certainty of the interest rate which covers this for a long period of time.

Mr. Wysopal stated that City Council put this in this year's budget and took action to prepay on several of our existing bonds so they will be paid off early to create capacity in our levy.

Ms. Peterson added that this has been happening over the course of two years and will continue through 2017 with the first payments on this in 2018.

Commissioner Backlund asked if staff planned ahead so the cash flow is absorbed so there isn't a significant increase to tax payers.

Ms. Peterson replied yes; payments were accelerated and debts will be paid early to levy a more consistent amount so when we start making payments it's not so difficult.

Commissioner Backlund said that this is good news for the tax payers.

Mr. Lennander reviewed the environmental status of the site now that the demolition of the Columbia Arena is complete. The regulated material is demolished and MPCA has approved the Response Action Plan. Two tanks were found and removed and there is gas in the soil and that has been submitted to MPCA. Staff is waiting to hear back from MPCA. When the

contractor starts to do the project they will need to take the fuel material out. There is no outstanding action to be taken on the Freon that was in the soil. There are few things to work on the public works site; areas where oil leaked but it is pretty small. Phase 2 will lead to a Response Action Plan (RAP). As the project goes forward staff will deal with what comes up. He is meeting with Braun tomorrow morning to prepare a proposal for a Response Action Plan. Preliminary borings were started this morning on stage two geotechnical work. That will determine what will need to be done with the foundations. He expects field work to be done in the next week or so.

Commissioner Eggert asked what items were identified as risks for delay. He noted that it was a challenge in dealing with the Freon properly and that it took some time.

Mr. Lennander replied that most issues are pretty straight forward that are left. Once the RAP is in place there will be no delay and they should move right along.

Chairperson Commers asked if the tanks were on the public works site.

Mr. Lennander replied that they were on the Columbia Arena site and that there was a previous leak on the public works site and that is closed.

Commissioner Gabel asked when Braun will have the RAP for MPCA.

Mr. Lennander replied that there is a meeting tomorrow and then he will have more information. He expects it will take a month to get the proposal back to him.

Commissioner Backlund asked when they will determine the open fill for the wet land and where it came from.

Mr. Lennander replied that there is no history on the wetland. When they excavate they will look for problems and monitor it. If they find something they will have a process on what to do next.

Commissioner Gabel asked what the life structure was on the bonds.

Mr. Riley replied that they are a 20-year term with an option of redemption or call feature refinance or pay off early in 8-10 years.

2. Fridley Job Fair Update

Paul Bolin, HRA Assistant Executive Director, stated that staff worked with the Anoka County WorkForce Center and DEED to hold the City's first ever job fair on April 20. 25 employers had over 150 openings and 300 job seekers attended. The job fair ran from 2-7 p.m. There are an abundance of jobs open in town. With the success we had this year with the job fair we would like to try again next year. Employers said would like to do this twice a year. Staff will explore other venues for next year to host the event as we were limited to 25 employers and parking can be a challenge.

Wally Wysopal, City Manager, thanked Paul and Jacquelin for working on this project. The City does care about business in town and wants them to let staff know about labor shortages.

This is an example of the City's commitment to employers in town; to keep businesses in Fridley.

3. Housing Program Update

Paul Bolin, HRA Assistant Executive Director, stated that in April two loans were closed making a total of three year to date. With the new loan programs coming there should be an increase in this program. We are trying to put together a workshop with the mobile home community in June. In April there was one remodel advisor visit making a total of two year to date. The Home Energy Squad had two visits in April for a total of 17 year to date.

Mr. Bolin noted that the new business loan program had six different businesses approach staff and one may fit within the program. Other inquiries had projects that wouldn't work. The word is out and starting to create some response to the new program.

ADJOURNMENT

MOTION by Commissioner Gabel to adjourn. Seconded by Commissioner Eggert.

UPON A VOICE VOTE, ALL VOTING AYE, CHAIRPERSON COMMERS DECLARED THE MOTION CARRIED UNANIMOUSLY AND THE MEETING ADJOURNED AT 8:23 P.M.

Respectfully Submitted,

Krista Peterson, Recording Secretary