PARK SYSTEM IMPROVEMENT PLAN

BOND ISSUANCE DISCUSSION

APRIL 25, 2022

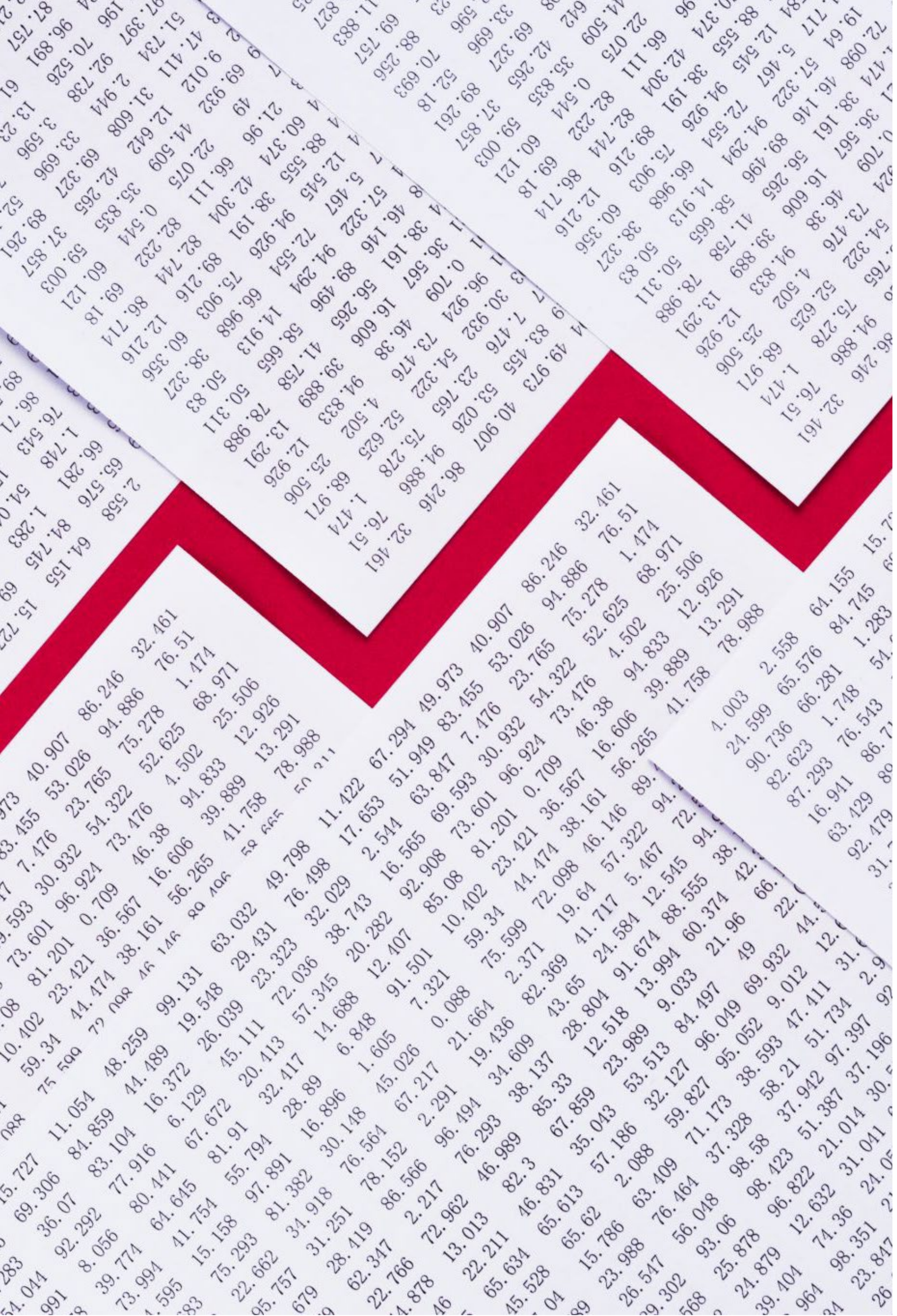
City of Fridley

OVERVIEW

- Original Timing of Bond Issuances
- Rising Rate Environment/Inflationary Forecast
- Alternate Scenarios
- Property Tax Levy Impact
- Considerations
- Questions/Additional Information Needed?

ORIGINAL TIMING OF BOND ISSUANCES

- $20 mil. issued in 3 separate issues, 3 years apart
  - 2023
  - 2026
  - 2029

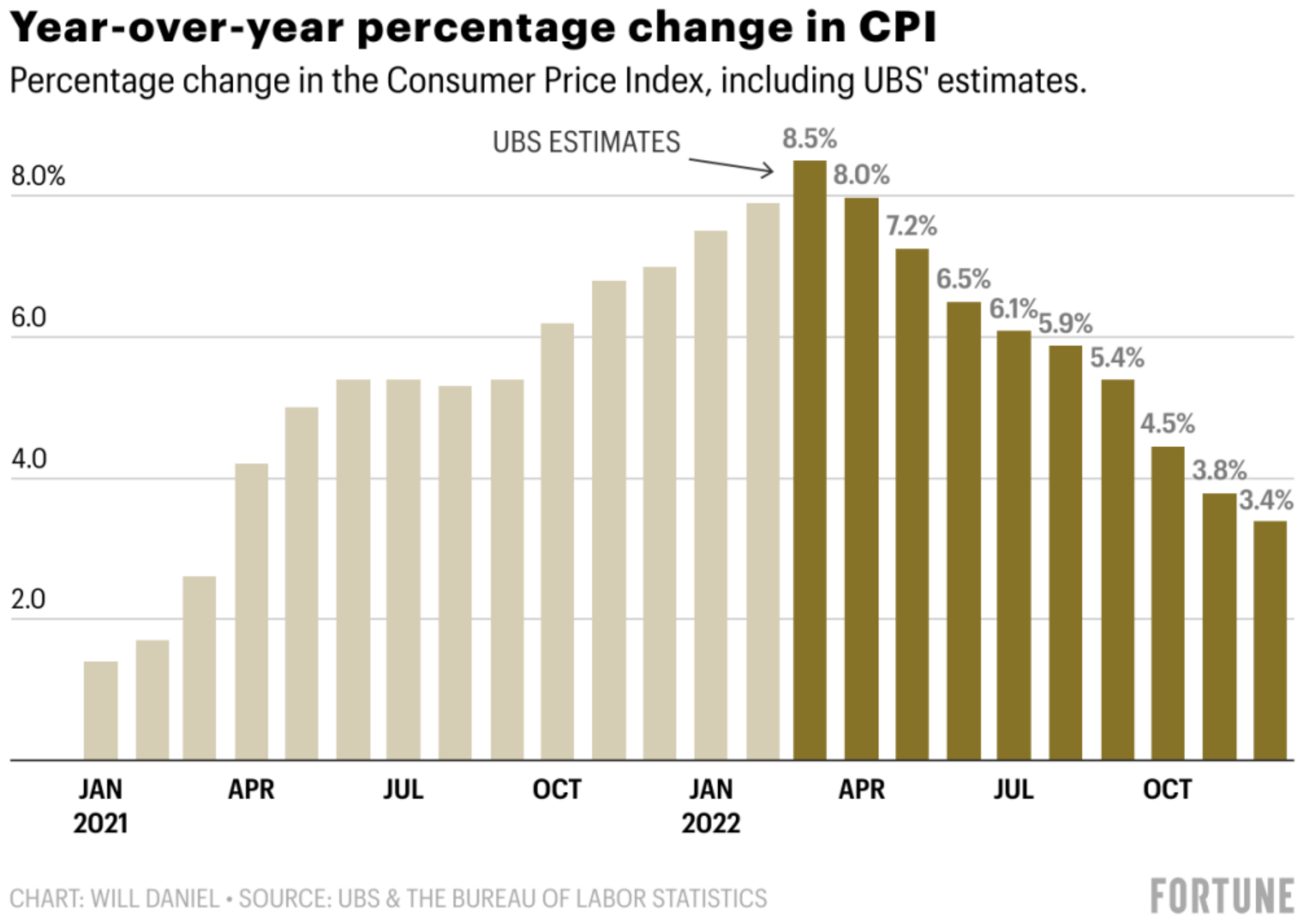


RISING RATE ENVIRONMENT

- Due to the rising interest rate environment, staff is looking at different scenarios in issuing bonds, timing and number of issuances
- Likely increase of 200-300 bp (2-3 percentage points) by end of 2022 going into 2023
- Projected 5-7 federal funds rate increases by end of 2022 going into 2023
- Rate increases intended to slow inflation and moderate consumer price increases

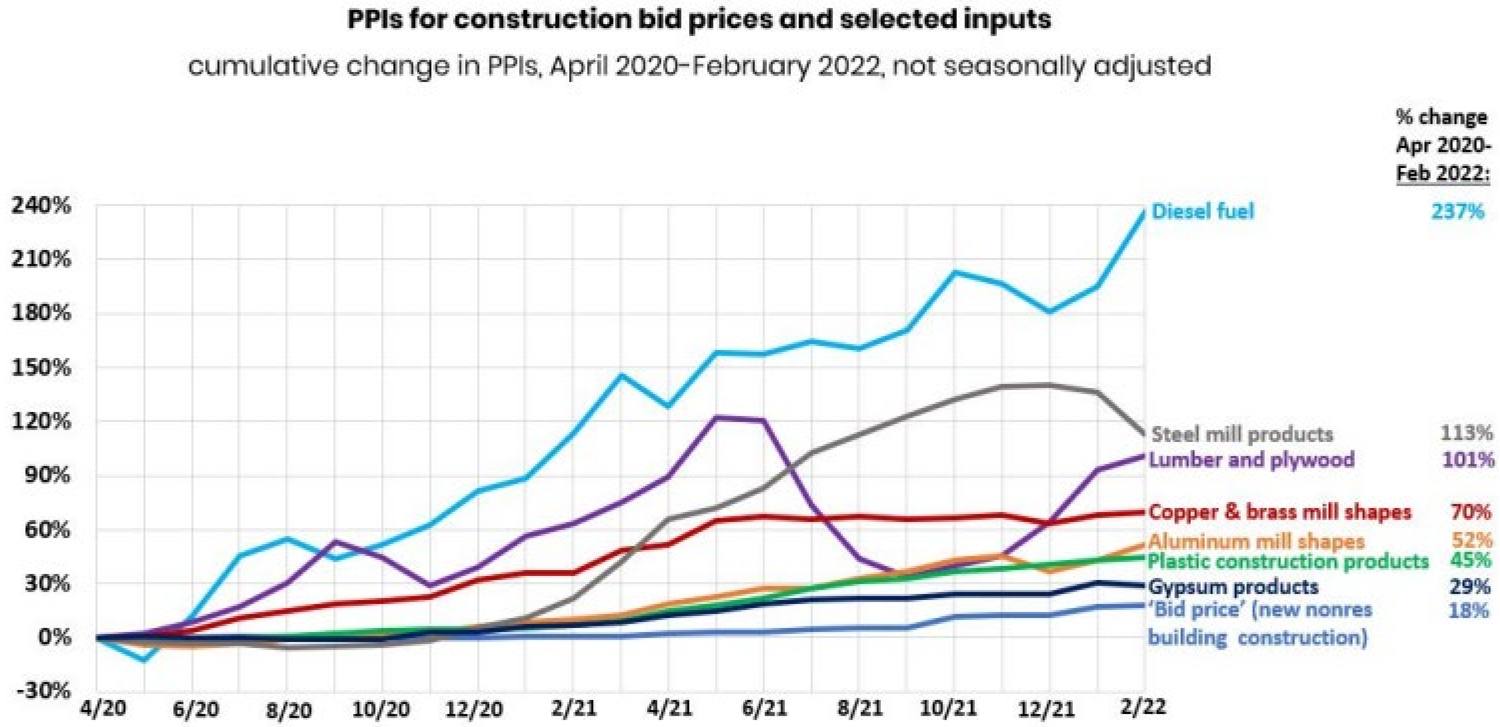
INFLATIONARY FORECAST

- Inflation currently at highest level since early 1980s
- 5-7 rate increases by Federal Reserve by end of year going into 2023
- Rate increases intended to lower inflation and moderate consumer price increases
- Optimism
  - Core inflation index increased at the slowest pace in six months.
  - Largest driver of growth in core inflation over past year, used car prices, decreased 3.8% from February to March.



PROJECT DELIVERY ENVIRONMENT

- Are we concerned with rising construction costs and supply-chain issues regarding the spend-down requirements?
  - Current construction materials pricing is up (mainly for steel), but materials costs are expected to level over this year.
  - Fuel costs are up, but this has limited bearing on overall costs with known local bidding activity this spring.



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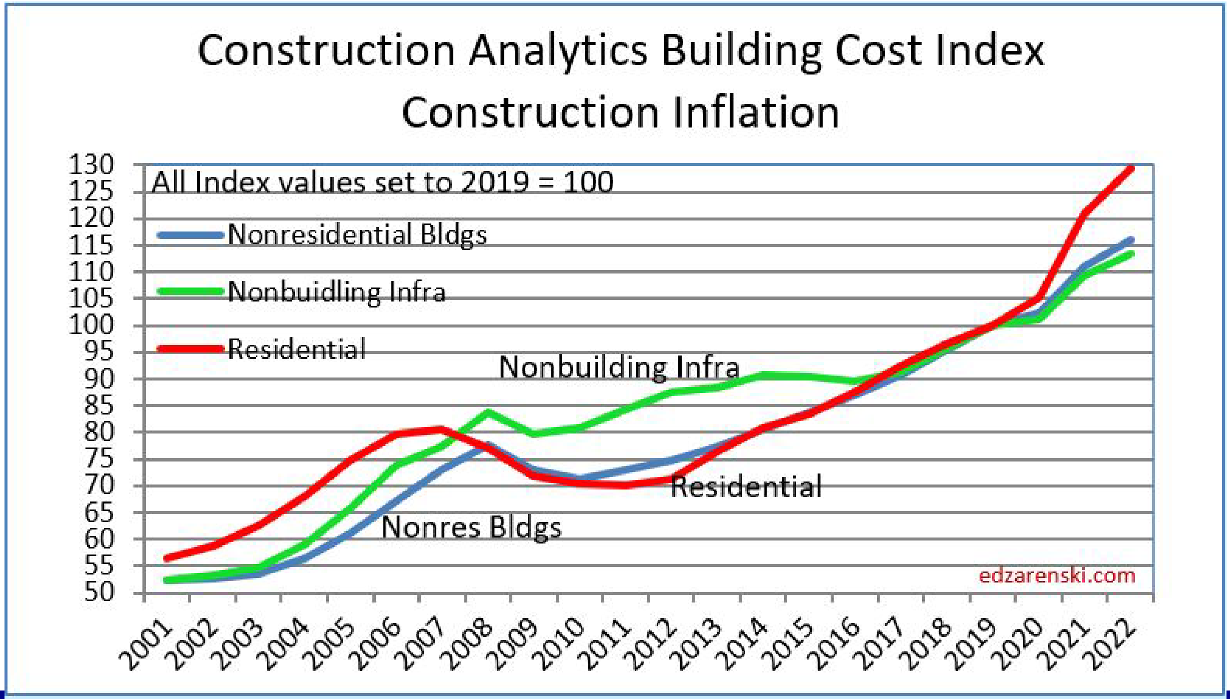
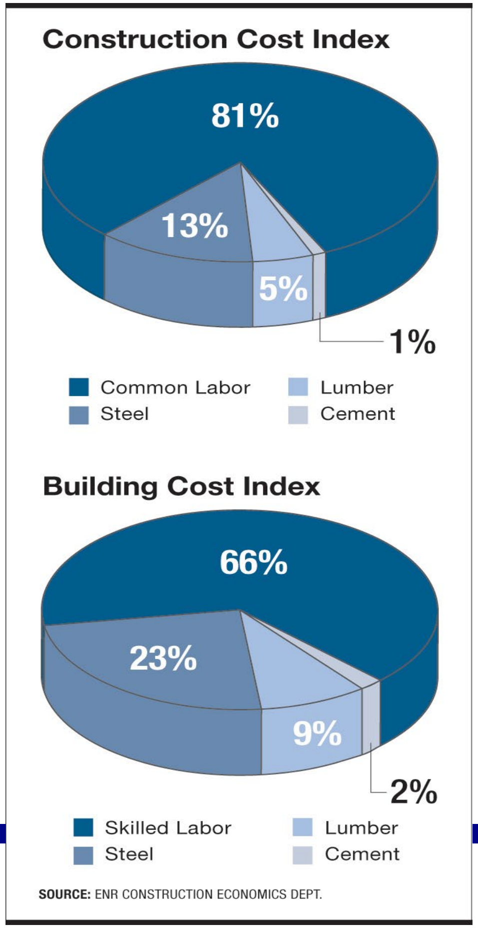
PROJECT DELIVERY ENVIRONMENT

- Future cost driver is likely to be labor, however we are somewhat insulated from this as our projects require prevailing wage. Availability of labor will be a greater impact and create increasing prices in the next few years. An earlier construction timeline therefore may be of benefit.
- Our consultants are advising that materials for building and other elements are not likely to have an impact with this advanced schedule.
- Current supply chain issues are factored into delivery estimates.





ALTERNATE SCENARIOS

Moving 2023 issuance of original plan ($7 mil. +/-) to 2022

- Interest savings by moving issuance up to 2022

$20 mil. in 2022

- Interest savings and issuance savings (1 issuance instead of 3)

ALTERNATE SCENARIOS

Move 2023 Issuance to 2022

- Projected $368,000 less in interest than original plan of 2023 issuance
- Interest rate lower in 2022 than in 2023
- Spending while cost of project/materials decreasing from current levels

$20 mil. issuance in 2022

- Projected $1.20 mil. less in interest (vs. option above) & $1.53 mil. less in interest (vs. original)
- Interest rate lower in 2022 than in 2023
- Spending while cost of project/materials decreasing from current levels

PROPERTY TAX LEVY IMPACT

Original Plan - 2023,2026,2029 (updated with current/expected rates)

		15 Years
Type of Property	Residential Homestead	Commercial Industrial
Estimated Market Value	$ 295,000	$ 1,000,000
Annual City Tax Impact	$ 136.72	$ 922.29
Monthly Tax Impact	$ 11.39	$ 76.86
15 Year - Average Annual Levy	$	2,031,407

Move 2023 Issuance Up to 2022

		15 Years
Type of Property	Residential Homestead	Commercial Industrial
Estimated Market Value	$ 295,000	$ 1,000,000
Annual City Tax Impact	$ 135.21	$ 912.10
Monthly Tax Impact	$ 11.27	$ 76.01
15 Year - Average Annual Levy	$	2,008,959

$20 Mil. Issuance in 2022

		15 Years
Type of Property	Residential Homestead	Commercial Industrial
Estimated Market Value	$ 295,000	$ 1,000,000
Annual City Tax Impact	$ 129.82	$ 875.76
Monthly Tax Impact	$ 10.82	$ 72.98
15 Year - Average Annual Levy	$	1,928,918

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PROPERTY TAX LEVY CONSIDERATIONS

- Assumes 15-year average repayment, however, there is flexibility in how the repayment can be structured, i.e., lower repayment in earlier years, higher in future years, however, the City would pay more in interest cost. This would lower the tax burden in earlier years and increase it in future years. Other City funds, i.e., Community Investment Fund, etc. could be used as well to soften the initial impact.
- The original plan of issuing bonds in 2023 would create a property tax impact beginning in 2024. Issuing bonds in 2022 would an impact beginning in 2023.

PROJECT DELIVERY ENVIRONMENT

- Assumptions for spend-down analysis
  - Design can proceed upon approval of plan
  - Construction contract approval in 2022
  - Moore Lake Building can be prioritized
  - Moore Lake Park construction during 2022-2024 (in two phases consistent with prior planning)

- Spend down estimates

2022 Bond issue:	3 x $6.7M bonds	2 x $10.0M bonds	1 x $20M bonds	Deliverable
By 12/31/2022	$0.67M req.	$1.0M req.	No requirement	**$1.0M**
By 7/1//2023	$3.0M req.	$5.0M req.	$2.0M req.	**$3.5M**
By 7/1/2024	$5.7M req.	$8.5M req.	$6.0M req.	**$7.0M**

- Staff also looked into a scenario for 2 separate $10 mil. issuances, however, that option is not feasible based on the required spend down.

DEBT SERVICE REQUIREMENTS

- Proposed improvement plan would meet arbitrage/spend down requirements for all scenarios being considered
- Debt capacity
  - The bonds are pledged with tax abatements to pay the obligations and, therefore, do not count against the City's debt limit

CONSIDERATIONS

NEED TO START PROJECT VERY SOON (DESIGN, ETC.)

SPEND DOWN REQUIREMENTS ARE REALISTIC, AND THE PLAN CAN PROCEED AT REQUIRED PACE

IMPACT ON PROPERTY TAX LEVY

INTEREST RATE RISK FOR MULTIPLE ISSUANCES IN VOLATILE RATE ENVIRONMENT

OPTIONS

Original Plan (2023, 2026, 2029)

Move 2023 Issuance to 2022

Full Issuance in 2022

QUESTIONS

- What is the goal of considering 2 new options? Why not stick with the original plan?
  - The goal is to save the City money and lessen the impact on taxpayers. The original issuance plan was devised in a much lower interest rate environment. Interest rates will be higher going into 2023 with several federal funds rate increases. The rate increases are intended to curb inflation and moderate consumer price increases. Nearly all the project spending would come when CPI is projected to be decreasing or lower than today, i.e., 2023, 2024, etc.

- Do the 2 new scenarios create more of a burden on the property tax levy than the original plan would have?
  - No, in fact they create less of a burden as a direct result of interest (and issuance) savings.

- Would the timing of the impact to taxpayers change?
  - Yes, with the original plan (1^{st} issue in 2023), the impact would begin in 2024. If the City were to issue this year in 2022, the impact would begin in 2023. However, there is flexibility in structuring payments at the time of issue and could be flexibility with the timing of usage of the other funding sources, i.e. community investment fund, etc.

City of Fridley

QUESTIONS

- With both options, would the speed of the project differ substantially than what was presented to Council?
  - No, the spend down requirements and pace align with the presented plan, i.e., this would not be a case where the City would be spending additional funds just to expedite the process for interest rate savings. However, the project construction and associated spend down would begin one year earlier than initially proposed.
- Are the 2 new options feasible from a project timeline standpoint?
  - Yes, other than prioritizing and advancing construction of the Moore Lake Building, the pace of spend down does not differ significantly than the plan that was presented to Council.
- Would a project coordinator position need to be hired?
  - Not necessarily, however, it would be a savings to the City to have a staff member than can assist in coordinating the improvements. The Park System Improvement Plan Financing Advisory Committee had recommended hiring a City staff member to coordinate the project in lieu of hiring consultants.

ANY ADDITIONAL INFORMATION NEEDED?

WHAT IS COUNCIL'S DIRECTION FOR STAFF?

THANK YOU!