

## EAST BETHEL CITY COUNCIL WORK MEETING

July 17, 2013

The East Bethel City Council met on July 17, 2013 at 6:05 PM for a work meeting at City Hall.

MEMBERS PRESENT:        Ron Koller                      Richard Lawrence        Tom Ronning  
                                     Bob DeRoche                Heidi Moegerle

ALSO PRESENT:            Jack Davis, City Administrator  
                                     Mike Jeziorski, Finance Director

Call to Order        **The July 17, 2013 City Council work meeting was called to order by Mayor Lawrence 6:05 PM.**

Adopt Agenda        **Moegerle made a motion to adopt the June 10, 2013 City Council work meeting agenda. Koller seconded; all in favor, motion carries.**

2014 Budget Discussion        Staff will present options for addressing the deficits that will occur in 2014 because of 2010 A, B and C Bonds. In this report, various scenarios will depict and predict the impact of the use of the system and other city funds to reduce the amount of a levy increase. We also have Stacie Kvilvang from Ehlers here today. We had a meeting with Stacie today, and Stacie, as part of the options we have, will present two different cases for potential for a refinance. At this time Mike Jeziorski is going to make some lead in comments and give us an overview of where we are.

Jeziorski, "I wanted to touch on the levy and budget timeline. Where are we going to be at the end of 2013; get into the 2014 levy, and then talk about the debt funding scenarios. When we talk about the budget and levy, there is a specific timeline we follow. May and June our department heads submit increases to be put into the budget model. We have the proposed budget submitted to Council on July 3, 2013. Then we have numerous budget work meetings. We had one last week, one today. This all builds to September 4th, when we set our preliminary levy. Important note: whatever is set here, that is the max it can be set. It cannot be increased on December 4<sup>th</sup> or whenever we set the final levy. That is important to note. When we set our preliminary levy, in late November the stakeholders receive a proposed property tax bill with what we approve in September. Then the culmination of all this is December 4<sup>th</sup> when we have our final budget meeting and resolution. It used to be called the Truth in Taxation, now it is just a public meeting where the public can speak in regards to the budget."

"We are projecting to end 2013 with about a \$2.6 million fund balance at the end of the year. We have discussed fund balance policy 40-50% and at the end of the year we are projecting that to be about 53% of the 2014 year expenditures." Moegerle, "And that is to cover us through July 1<sup>st</sup> of 2014?" Jeziorski, "Correct. You could say there is about a 3% excess which equates to about \$186,000. So that is where we would start 2014. From a high level department classification, the budget is projected to go down by 1% in 2014. Public Safety is projected to increase by 6%. Public Works is projected to increase by 3%. Civic Events is projected to remain at the same level and Capital Improvements is projected to decrease by 3%. With all expenditures taken into account, what does the general fund levy need to be set at in order to have a balanced budget? It is projected to increase based on those expenditures by 1%. Going from \$4,125,317 to \$4,165,343."

"That leads us into second part of levy, which is debt service. DeRoche, "What is encompassed if you go back a slide in the 'Other?'" Jeziorski, "That is all the transfers to the Capital Improvement fund, so the Equipment Replacement, Streets." Davis, "Parks and Trails." Jeziorski, "With that we can go into Stacie's presentation on the possible refunding scenarios of the 2010 A and B Bonds."

Stacie Kvilvang, Ehlers and Associates, "I believe you have a two sided handout before you. The market has settled a bit, but not to our exact liking. We re-ran options for the 2010 A and 2010 B. There are several scenarios and two are being presented to you tonight. One that hits a goal that Council Member Moegerle had and another that is realistic that we would recommend to you. Look at the top of the page that says 'The \$17,875,000 GO Refunding Bonds 2013A.' That would be if we were to be refinancing both the 2010 A and B Bonds. If you go to the far right column, you can see the savings. What gives us pause to concern, you have a negative in 2020. It doesn't make sense to do this necessarily, because you are going to have a huge cost in some of those years."

"So, if you go to the next one that is titled '\$6,230,000 GO Refunding 2010 B bonds.' This would just be if we were to refinance the 2010B Bonds. Those have the 45% credit, so there is a better ability to achieve savings. In the first five years you achieve savings; they increase in 2016 to 2018, and then run into a negative of \$14,000 a year that you would end up paying. If one of the goals is to get out of the federal program (so you don't have to worry about the reductions they may have); two is to try to achieve savings in the first five years to the extent that you can, and then try to keep it as close to zero in the next years is what we have tried to do with the sizing of this bond. Really we would be recommending that you just move forward with the Build America Bonds at this time. What you can do is for the 2010A Bonds, is that is something you can look to do later this year."

DeRoche, "What has to happen, five good years and then we go in the negative. Why is that happening?" Kvilvang, "Because what we have done is we have pushed the principal payments out as far as we can with regards to this bond issue." DeRoche, "So it is banking on the theory that in five years we will be doing wonderful." Kvilvang, "Yes, that in five years you will be doing a lot better than today." Moegerle, "So we can do the B Bond because we are not doing as we initially tried?" Kvilvang, "Yes, that is correct. We are separating it out and it would be bank qualified. But, because the credit is a lot higher (even with interest rates where they are), we are able to meet the parameters you were looking at." Moegerle, "Back when you initially came, what was the proposed savings going to be on 2010 B?" Kvilvang, "I am not sure how it breaks out. \$3 million combined. I can look in my packet to see how it breaks out."

Ronning, "What is one SAC charge value?" Davis, "The total with the City and Met Council is 8,200. Met Council's go up 5% every year and we haven't set any increase and next year it will be \$8,330." Kvilvang, "About \$1.7 million or \$1.8 million was attributable to 2010 A bonds." Moegerle, "So our savings here is \$270,000 compared to \$1.7 million before? There has been a change of 80% in interest rates?" Kvilvang, "The 2010 B that savings was \$1.3 million. But, yes, the biggest significant factor in that is interest rates." Moegerle, "So in two months we are going to get 20% of what we were talking about. And what are the fees to get that savings?" Kvilvang, "Total cost of issuance is around \$90,000."

Davis, "Again, there is another factor we need to consider on the refinancing. The savings is very, very important. The other is to get out of the burden, the threat of further reductions as a result of the sequestration process that is going on in the federal budgets. I had a very brief conversation with Congresswoman Bachmann's office and Senator Klobuchar and Senator Franken office this afternoon. I am trying to see if there was any direction on what they anticipated the length of this sequestration process would continue or is it a won and done deal. Or do we have to anticipate it in the future? Congresswoman's Bachmann's office said there was no way to speculate and it was too early for them to predict. From the senators' offices there were no staffers there that I could speak to that could give me any information. So I left a message and they said they would get back to us. Our federal tax credits were reduced by 8.7% this year on our second payment; or \$21,000. At this point we are anticipating this reduction will stay in place for next year. And we will always be faced with not knowing if they will and how

much they will be reduced.”

DeRoche, “I understand that, but I also understand our backs are against the wall here and we can’t make decisions out of desperation. And if we are going to roll the dice, it has to be for something that is going to make sense. And if we are going to just not going to gain a whole lot. Spending \$90,000 to save how much? And that is only for five years and then we are right back out. And even if a bunch of developers come in and say, ‘Yes we want to roll with it,’ they are not going to be up and running and have money flowing through here until at least 2016. We have been speculating and speculating and we are not in a position where we can just second guess things.” Davis, “This is just an assessment of what we can expect with the federal tax savings. And we have to balance that out with what we can achieve with the savings of the bonds.”

Moegerle, “I have been looking at this and I am not a fan of kicking things down the road. You don’t do that with retirement, because you have to be saving. When I look at the savings here, it is basically, one dollar per resident. And when we are considering the cost, that is one dollar for everyone, we are saving them one dollar out of \$44. Is there a compromise position between what you first came to us with or this?”

Kvilvang, “I think these are your options. To combine them, it is pushing it to get that \$1.5 million savings, but you have big negatives which we don’t think is a good deal. But, if you just did the BAB’s at this time, our hope is to push it so you have no negatives in those future years. But, this is a best guess estimate with where the market is at and with negotiating with the underwriter. We are going to provide them with something that looks a lot better than this and hope at a minimum to achieve this, if not better.”

Moegerle, “And if you get a better deal does our cost for those services go up?” Kvilvang, “The big unknown is the underwriter’s services, so we put in 70 basis points for that and we are not sure where they will come in. But, your cost for issuance for everything else is pretty well known.” Moegerle, “So how much longer do we have with regard to our bond ratings?” Kvilvang, “The rating is good for 90 days. So, September 18<sup>th</sup> because I believe it was on the 18<sup>th</sup> of June that was completed.”

Ronning, “Realistically, considering risk, the best thing to do is get rid of this thing and go with something like this. Then you have options. You have some kind of savings. As far as the sequester goes, that money is not going to go back in there. The only things that are getting refed are the things that get enough public attention and this won’t be one of them. There is no guarantee to that, but it is the best guess right now.” Moegerle, “I agree that refunding this may be possible. I am not sure this is the time. So if we sent this out for bid, and we didn’t like what we got, and did it again in August, are we going to get a bad reputation and nobody is going to bid?” Kvilvang, “What we are recommending is not to put this out to bid. We are recommending that you negotiate with the lowest responsible bidder to see if we can work on the parameters.” Moegerle, “And we can still walk away.” Kvilvang, “You can still walk away. We will show them something that is better than this and our goal is no negatives.”

Lawrence, “Traditionally it seems in the market that October seems to be where things drop the most. Does that hold true for interest rates and such?” Kvilvang, “No. Then everyone would be selling then.” DeRoche, “For the A and B, it seems for five years they are both good and then everything goes down.” Moegerle, “But that is the way you [Kvilvang] worked it. We could have a different paradigm.” Kvilvang, “Yes, we worked it that way. Pushing to get your savings in those first five years. Our hope is we would see that number reduced even further.” Moegerle, “Same token, you are talking about working on numbers, what do you plan on doing with the 2010 A?” Kvilvang, “That one is so much harder. Because of where the interest rates are at. We tried to massage it to get the best and we just can’t get that one to work.” Moegerle, “The

savings is really high during the years 2031 to 2040. Why couldn't the savings be averaged between 2020 and 2040 so that those numbers aren't quite so severe?" Kvilvang, "It is the couponing. They looked at it and structured it the best that they could. If we just do a straight amortization, you have negative savings."

Ronning, "In the first four years of savings goes a long way to getting you breathing room." Moegerle, "We need to be investing in the City." Jeziorski, "If we go back to the 2010 B, it buys us some time. We get out from the federal government's sequestration and the reduction in our refund. So I think it meets the criteria. We are kind of at the bottom of interest rates as a whole and so any kind of refinancing in the future is going to be pre-conjecture at this point. At this point I would be in favor of this refinance and keeping the 2010A in the back of our minds." Ronning, "Considering what he just said, and that this gets us out for at least eight years." Moegerle, "But only in regard to B. Because we still have to pay interest rates on the A. So, we may be saving \$35,000 but we have those others to consider."

Davis, "The only problem with the A Bonds is the way they are structured. And with the reduced federal tax credit, it makes them hard to come up with anything. Especially with the way interest rates are now. I am not, and I do not pretend to be, an expert in the bond markets. But everything I have read says the bond market is volatile. And everything I have read says to consider diversifying their portfolio. It affects it on both side of the coin. In all likelihood, tomorrow, something will change and prove me to be wrong."

Koller, "I see the B, the first five years we have a lot of savings. The other one, we have a little savings and then we are in the hole big time. The B looks pretty good." Moegerle, "I see we spend \$90,000 to get a \$270,000 savings." Koller, "That is a good return on an investment." Moegerle, "These bonds were bad in the beginning. If we can do better, we need to work on it. I would like to see a better return on it."

Davis, "This isn't something we need to make a decision on tonight. We are recommending that we do revisit that bond parameters resolution that we talked about in June. So we can act on the negotiations that Stacie will conduct. We don't want to be caught in the same situation that we were in back in June. There has been a dramatic shift in the bond market. Will the storms blow over? I can't tell you." Kvilvang, "The big factor here is your rating. You can pay your \$15,000 fee and wait and see what happens in the market. Your risk is the market just gets worse. And, then you have lost all your savings. The flip side, the market can get better and your savings can increase. We tried to meet the criteria for your B's."

DeRoche, "In my case, if we are going to do something, it has to be something that is going to make a difference. Otherwise I don't see it." Lawrence, "How long do we have to hold that before it can be looked at again?" Kvilvang, "An eight year call. We want to discuss that with the underwriter to a ten year." Ronning, "Starting tomorrow there is 63 days to accomplish it. Be careful what you bite off." Moegerle, "Part of it is 'B,' you are telling us these are worst case scenarios." Kvilvang, "These are reasonable expectations." Moegerle, "I would like more options, more information." Kvilvang, "The structure here is the recommended structure. There are certain parameters we have to meet." Ronning, "If there was much better information available, she would have brought it." Davis, "There were two that were negative savings, so we didn't have her produce that." Moegerle, "More information is better. It would have been nice to have that information." Ronning, "One of the problems with more information, is it equals time. Part of our responsibility isn't to gamble with what we have at hand."

DeRoche, "I disagree. Taking gambles whether we wanted to or not. If we are not going gain anything substantial. Hard to explain." Ronning, "If you didn't know anything about the \$3,000,000 how would this look? You are going to have handcuffs on if you leave this like it is."

Moegerle, "What can the City do to improve its bond rating?" Kvilvang, "You are not in a position to improve the bond rating. It is population, income; you would not have been rated higher. Your other option is you don't refund it. From my perspective, you at least would be seeing some savings." Moegerle, "My view is go ahead and do what you can and get. I wish it was \$3 million." Lawrence, "I think this is not a bad deal. I hope we can get this wrapped up before it goes down."

Davis, "What is the timeline that we need to adopt the bond parameters resolution? Or what is the timeline that we need as a Council? We can call a special meeting in three days. Is that adequate to address a situation that comes up?" Kvilvang, "We cannot negotiate until you have the bond parameters resolution in place. Once given the authorization, we will move forward with negotiating." Koller, "I think this first one, where we're going to push out five years and then take those losses, we can't do. But 2010B looks pretty good."

Jeziorski, "We have three different scenarios on how the bond will take into account that refinancing didn't occur. Scenario A is a simple cash flow. Have negative balances. For 2013 have 54 SAC units. Hope to receive those funds. For 2014-2016 we are looking at zero connections. So, how much do we have to levy, for 2014 it would be \$490,000 for 2010A and \$300,000 for 2010B for a total of \$709,000. That is the same I used for 2015 and for 2016 I had to use a debt payment of \$1.5 million." Moegerle, "About a 20% increase in tax."

"Scenario B - I put in 50 connections for 2014, 2015 and 2016 and spread the levy accordingly." Moegerle, "If we had an extra \$100,000 coming in each year, would that make a difference?" Jeziorski, "We did that on Scenario C; 240 connections for 2014, \$62,000 transferred from the general fund to these bonds and we would still need to levy \$440,000." Moegerle, "Divide that by 4,000 properties, so it would be about \$100, more or less." Jeziorski, "I did it in terms of value of their homes." DeRoche, "What kind of effect will this play since the 50 ERUs is not the commitment?" Davis, "The 50 ERUs is the projection. But, beyond that it is a guess. We are just trying to be realistic in projections." DeRoche, "But our commitment is higher than that." Ronning, "The SAC and WAC charges; the SAC is income for us? Cash flow?" Davis, "There are two SAC charges. \$5,600 is the City charge and \$2600 to Met Council."

Ronning, "Two thousand, six hundred dollars - is that the commitment to Met Council if they don't make it, we pay it?" Davis, "Not necessarily. That is a reserve loan program. Eventually you pay. There will be payment at some time. There is a clause in there that might be helpful to us." Moegerle, "They are provided for at the legislature and we need to make sure they use it reasonably." Davis, "We just have to have a basis for making the request." DeRoche, "It is not a question of, 'If we are going to pay it.' The reality is at some point we are going to pay." Moegerle, "I understand it is a 'pay it forward' system." Davis, "I would anticipate that we would have to show that there is an extraordinary circumstance. The City of Isanti was in the same situation when they did an extension to the east side of 65. Granted, this was something they elected to do, rather than something we had some opposition to. If we are going to do this we have to have a case for it." DeRoche, "In the reality, East Bethel is kind of high, without tax increases or levies." Davis, "They aren't comparing apples to apples. They are not in the same situation and, with the other cities, there are only a couple percentage points that separate us." DeRoche, "The reality is, look we are a lot higher than the communities around us. It does matter. We are at 48%, but now we are looking at having to go higher because we have bonds to pay off. Because if we are going to have any chance of getting development." Ronning, "These charges, \$2,600 that is the minimum? That is \$16,900,000 on top of all of the bonds." Davis, "Here again, this is something that is not as critical in the whole outlook of things. There is a thing called the reserve loan program, but there is interest involved in this. No matter what we do, East Bethel is on the hook for a lot of money and a lot of interest. We need to try to attract a lot of development to mitigate it as much as possible."

Jeziorski, "I'd like to leave you with two things. Scenario A, looking at about \$790,000 in additional debt service levy. More likely scenario, Scenario C; \$446,000 increase to the debt levy. And then any other scenarios you would like ran I can also do those, but there are arguments for both. If you set it at \$790,000, you could potentially lower it at that point if you do the refinance for the 2010B bond. Obviously though, it will be sticker shock for everyone that gets their proposed property tax statement and has for those that huge amount on there." DeRoche, "Shouldn't be that much of a shock. People have known this for a long time." Davis, "On a \$300,000 home the taxes will go up \$300." Ronning, "It was told, 'If you don't hookup you don't pay.' We are all paying. I mention that because I believe there are still people that say, 'They told me I wouldn't have to pay.' There is no easy way out." DeRoche, "We have been saying that for three years."

**Moegerle made a motion to adjourn at 7:25 PM. DeRoche seconded; all in favor, motion carries.**

Attest:

Wendy Warren  
Deputy City Clerk