

EAST BETHEL CITY COUNCIL WORK MEETING

August 1, 2012

The East Bethel City Council met on August 1, 2012 at 6:10 PM for a work meeting at City Hall.

MEMBERS PRESENT: Bob DeRoche Richard Lawrence Heidi Moegerle

MEMBERS EXCUSED: Bill Boyer Steve Voss

ALSO PRESENT: Jack Davis, City Administrator

Call to Order **The August 1, 2012 City Council work meeting was called to order by Mayor Lawrence at 6:10 PM.**

Adopt Agenda **Lawrence made a motion to adopt the August 1, 2012 City Council Work Meeting Agenda. DeRoche seconded; all in favor, motion carries.**

RFPs for
Financial
Services Davis explained that Council has directed staff to solicit RFP's for the position of Financial Services Advisor and four firms have responded to the request that was placed on the League of Minnesota Cities website.

The four firms submitting proposals are:

- 1.) Springsted, Incorporated;
- 2.) Ehlers, Incorporated;
- 3.) The PFM Group; and
- 4.) Northland Securities

Northland Securities is here to present.

George Ellertson introduced himself and Tammy Almdahl. Ellertson, "There are three things I want to cover. First, I wanted to introduce ourselves and what we do and who we work with. Second, tell you about Northland Securities, what we provide and why working with us would be a benefit for you. Third is what are the key factors we see facing East Bethel in the very near term and in the coming years.

I have been in public finance since 1990. I was pleased to be working with East Bethel from 1998 to 2004. I helped refinance the Ice Arena, Minard Lakes, (purchased the sewer facility there), and in conjunction with that we did the Aberdeen project. We work with some of your neighbors, some similar characteristics such as Forest Lake, Bethel, St. Francis, Isanti, Otsego, Columbus, and Ramsey."

Almdahl, "I have been with Northland for about a year. I have been in financial services for about 20 years. I worked as the deputy city manager in Burnsville and prior to that I served as budget director for the city of Minneapolis. I serve as manager of strategies for Northland. What does that mean? I am the person that is responsible for leading the economic development tax increment financing work. Any special projects. I am a strong believer in my career and what has served the cities well in long term financial planning. When you are doing economic development, it cannot be done in a vacuum. It needs to be

done broadly and looking at the city as a whole. Looking at infrastructure projects, etc.

I want to real quickly touch on Northland and why are we a good choice for East Bethel. We are part of a larger investment bank. This means we can bring that market acumen that our competitors simply cannot bring. You may never decide to avail yourself of our ability to underwrite your bonds. We do complete sale, we act just like an independent financial consultant. One reason I went to Northland is that ability to have broader access to the market. We can simply walk down the hall and test things. We can speak to the traders because they are our co-workers. That makes a difference.

Ellertson, "We are market savvy, by virtue of having a bond trading desk within our firm, which provides a lot of insight that we can share with the cities that we work with. Just a couple things we see on a daily basis, daily updates on interest rates from non-rated bonds to triple rated bonds; something we use on a daily basis. Update on the market in general. One of the articles talks about enhanced disclosure for communities. The third item is the potential refinance your 2005A bonds.

The third thing we wanted to talk about before we take questions is the three key factors we see facing East Bethel. The potential economic development project. We have talked to Andy Pratt about this; we have a good working relationship with Eckberg Lammers. We have reviewed your project and Tammy has some comments." Almdahl, "We are not the sales staff for Northland; we are the people you would work with. These tie back to long term planning. Use of special assessments. Broader prospective is something unique we would bring to the table."

Ellertson, "We are looking to help you have a win/win scenario. While at the same time protecting the city. We have all heard stories of "build it they will come." Look at economic development opportunity. Second is management of long term debt. 2010 some large bond issues were done. We work pretty close with your auditors as well. We discussed this with them. This is one of the key points they made, "Make sure city manages this correctly." We have helped other cities get their long term debt more in sync with revenue level.

Third is we see the market opportunity. It is not so good on investing side, pretty good on borrowing side. In that handout I provided, there are a couple comparisons here. Back in March here are the savings when you considered it. Looking forward to yesterday, you are looking at negative arbitrage that has been reduced. So, the benefit there and benefit of the market improving. Savings was bumped up about \$16,000. The market did improve. One final comment on that, I saw in your minutes that you could only advance refund the bond once. The benefit of the market is that you can do advance call dates on bond issues now. Two years ago, when a previous council issued bonds, there was a call feature in 2021. We can now do bonds with features of calling them in 2019. So that is one way you can issue a bond in this market and not have the call date so far away in case the market improves again."

DeRoche, "I was one that was against doing the bonds and probably made that statement. Because what I had read was you could do it one time and one time only. Because at that point and time we were at and probably still are, "How do we make this work to the best for our situation." And my personal thoughts were we didn't have good enough advice?"

Ellertson, "You are talking about back in March and the refinance." DeRoche "Right." Ellertson, "I appreciate your feelings. One of the most confusing aspects of Public Safety Bonds is the refunding. It is one that is important that we take the time to explain to you so you understand it. It is true that you can only do this once, but you can put a second call date on it. And now you can issue an earlier call date."

Moegerle "I was also opposed to refunding at that time because as it was explained to me, if you wait until 2013 you can save more. Looking at what you have provided us and what you have said, we were wise to wait. One of the reasons I think you are here tonight is, during the refunding presentation, the 2010 debt was brought up. They said, "We didn't look to see how you were going to repay it." And I thought that was incredibly insensitive and unwise. Because we have a responsibility to taxpayers and by going to you we share that responsibility. So I think there was a grave concern in my mind as to whether the advice we were getting was a money making project for us or for our advisors. I am glad that you have provided us information that we were wise to wait."

Almdahl, "I am sorry to keep bringing this up, but that is why that long term planning is so important. So you have your own target set for savings. Otherwise you have a lot of firms showing up like ours saying, "Here is a refunding. You should be doing this now and this is why." If you have your plans in place and targets for savings, and once you are at those levels you can decide then if you want to do this."

DeRoche, "What is your philosophy on "build it and they will come"? One of my concerns is we bring on professionals because we need information that is correct and if somebody is not giving us the right information, it can lead us down the wrong path." Almdahl, "Build it and they will come, rarely works. It also depends on what is the city's exposure in that scenario? I am working with a City in the south metro and they did some "build it and they will come", but the circumstances were such that the City financially was not at a risk. They had some money to be able to do that. The other piece, with respect to "build it and they will come" is having those longer term plans. What are your goals? Are you willing to accept that risk?"

Moegerle, "With regard to our debt from the 2010 investment, what can we do with that other than look at TIF Districts and those kinds of things. Is it we just have to live with it?"

Almdahl, "There are always choices. Again, it is always that longer term planning."

DeRoche, "It is not like we are expecting a miracle, but a ray of hope would be nice."

Lawrence, "Do you have much development experience with TIF Districts?" Almdahl, "Our experience is extensive, both as an employer and as my current role with Northland. But tax increment financing is a tool; it is not a magic bullet. I used to use the term "It needs to be a win/win" when I worked in municipal government. It needs to be win situation for the City and it needs to be a win situation for the developer."

Davis, "Your firm is a bond counsel, financial advisor, and an underwriter. How do you separate the responsibilities between being a consultant and advisor and being an underwriter?" Almdahl, "By determining the roles up front. And who determines that? The City determines that. If you want us to act as just a financial advisor, we act as just a financial advisor. That is what makes us uniquely qualified."

Ehlers, Inc. Todd Hagen, introduced himself and Stacie Kvilvang. Hagen, "I have been at Ehlers for eleven years. I was at a law firm practicing public finance for 15 years before that. We work as a team at Ehlers; we have a lead and a second. You will always see somebody at a Council meeting or any workshop you have. We have lots of people back at the office that help us. I have only done public finance."

Kvilvang, "I have been with the firm for a little over 10 years. Prior to that I was at the City of Brooklyn Park in Housing, Redevelopment and Economic Development. I have spent a lot of time, not only in bond work, but also in development, redevelopment, doing grant writing for cities that don't have the staff in the City to take on the projects that they need to get done. I want to touch on a few highlights that were in our presentation sent to you and then we will take any questions that you have. Ehlers is a full service firm. Not only do we do debt service, management and oversight, but we also do financial planning. We work with a lot of communities and do long range planning. We do a lot of economic development work from Tax Increment Financing (TIF) to Tax Abatement. We work a lot of times as an extension of staff helping projects go forward, doing negotiations with developers, helping determine how much assistance is appropriate and is actually warranted.

In our debt management, we also do arbitrage calculations and dealing with the IRS. In addition to that we also have investment services that are available to our clients. So we really have a smorgasbord of services that are available. Some cities use one, some use all. When it comes to debt issue and bond issues, we are ranked number one for the number of proposals in the State of Minnesota. Our bread and butter really is our smaller bond issues. We really do have a deep bench. We have a whole office of other folks. Why we always partner is that, if one of us is on vacation you don't have an interruption in services. You will always have someone there for you."

Moegerle, "One thing that was brought up by the previous presenters was they were talking about a need for a long term plan. And one of the things this Council has done, and I don't think the previous Council did [see a need for] was a long term plan. I think the belief was we needed a greater tax base and if we did the infrastructure project that we would grow our tax base. So if we are going to start with a plan, if you recommend a plan, how do we start and what is the process and what would your role be in that?" Hagen, "It is your decision to start anything. At Ehlers, we don't make a lot of recommendations, but we put all the options on the table for the Council and staff to make a good decision. We feel that is really important. Bonds are being rated more than ever. Typically a long range plan is part of a checklist. It is a great road map to have. We put all that together. We start out with needs of public safety, and those types of things. Things that are paid off with tax levies. We will add the bond issues in there too. Rates from public utilities. Growth projections. That all goes into the financial management plan."

Kvilvang, "The big thing we do in the process is we sit down with staff and Council and figure out your goals. What do you want to do with capital expenditures you have. Look at all those and try to align what you have. Then look at goals. We try to figure out how we can balance everything." Hagen, "Planning at the beginning is essential. We have worked out a problem that is what we do. Helped with trying to maintain local tax rate. Again, sometimes that existing debt has to be refinanced."

DeRoche, "Have you had an opportunity to look into our bond issues we have from 2005 and 2010, which is quite a commitment. And what do you do with something like that? They are so new. I personally don't think people knew what "G.O." meant." Hagen, "Do a financial management planning and an enterprise study. I just worked on one for these in a little city, West Concord. We refinanced bonds where we could. We had surprises, there were bonds that were issued that were different than others."

Davis, "The main bonds we have are Recovery Zone, Economic Development and Build America bonds. Are those re-financeable?" Kvilvang, "They are not re-financeable at this time. You have standard calls in your bond issues."

Kvilvang, "To answer Council Member DeRoche's question, we can't come in and be miracle workers. I wish we could wave a magic wand, but we can't. But, what we can do is help you plan and see where the light at the end of the tunnel is. How can we change and structure some things so that you are not having such a high impact and maybe a levy increase." Lawrence, "What it looks like to me is, businesses are going to be coming. And when they come, they are going to be looking for a TIF or Tax Abatement. What kind of response do you have on this level for help for the City?" Kvilvang, "With every City we work with, we want to make sure you have a Tax Increment Policy and Tax Abatement Policy. But the big factor in that is when they are filling out the application, and providing the information, you do a thorough review to make sure there is a gap and you received good information. So what we do is spend a lot of time doing the gap analysis and internal analysis to determine what type of assistance if any is appropriate."

Moegerle, "Did you look at the advance refunding issue?" Hagen, "Again, we lay out the options on refinancing. There are a lot of things going on in the market right now. We are at a 45 year low, we know rates are low. It may go up tomorrow. It is not callable for a while. Those types of bond issues will show you an estimate because we do public bidding on most of the bonds. Not only for an interest cost savings, has a lot of bonds needed to be looked at for possible restructures. Present value saving is \$175,000. State law says 3% is what you need to hit at least. Any time you refinance a bond, call date/lock out date, think those 2010's are probably 2021 or sometime around there. You really should look at that in the context of finance plan. Maybe refinance now, but don't want to regret it a year from now because you didn't restructure that. You want you to see the big picture on this."

PFM Group, Heather Casperson and Matt Schnackenberg introduced themselves.

Casperson, "We put together a brief presentation book to hit the highlights. Wanted to let you know who PFM is. We are Public Financial Management and we have a partner that is asset management. So we are a national firm. Our proposal response included our 2011 fiscal year-end rankings. First half of 2012, we are ranking #1 on issues nationally. We do provide a national presence locally. We do have our legislative issues that are local in Minnesota."

Schnackenberg, "Financial Advisory Services is the main services we would be providing through PFM. We have investment management that would come in and perform service related to that. Page 5 highlights the team. I would provide technical masses. Heather would be the project manager."

Casperson, "We are the primary people that would attend the meetings; if we need to pull in an expert we would do that. Wanted to focus on the issues you are looking at. Current projects in the City on Page 6. We know in 2010 you had a very comprehensive utility improvement plan and that included sewer, water, roads and some property acquisition and easements. So that was a very big plan and you issued a lot of debt back in the end of 2010. So, what could we bring to the table to help you with that plan and debt and looking at your ongoing needs?"

Schnackenberg, "Look at annual operation, ongoing maintenance, capital needs in the future. Something you want to look at of course is where do your rates have to be. And part of that is where do you want your fund balance to be? I have done a number of these with water, sewer and liquor. If you are looking to bond for a capital need, it is very important for the future. It is important that it is not a surprise two years down the line. Something we do, is enterprise cash fund modeling. Something else we have capital enterprise fund model. We originally started this for the city of Wayzata and it has gone national now. Very important to look at all your enterprise funds. Also, to have a budget model that you can use as well."

Casperson, "And in the proposal response we gave some case studies where we worked with Nisswa, Bemidji, New Ulm and Baxter and we do enterprise modeling for all of them on an ongoing basis. Just Excel based models. Economic Development seems like it is very important to the City. You have a business on your agenda that is seems there is a financing gap in the plan. So one of the tasks your Council Members have to figure out tonight is how do you want to proceed with that. I do want to note that I was very impressed with the notes on your website, the meeting minutes. They are very comprehensive and thorough. Great that you are showing that transparency to your constituents. Not all cities do that. It is a thing to be proud of. You have a comprehensive view of what your options are. We tried to think of something out of the box. Something came to mind, "New Market Tax Credits", they pay you upfront, but unfortunately they have to be in a distressed area. TIF is a very valid and good choice. We noticed that the financing wanted to be in place all at one time. Have you talked to the developer about doing a pay as you go basis, or, that you could do a TIF note and they could use the TIF note for financing. That takes you kind of out of it."

Schnackenberg, "To give you an example city of Wayzata is working with Presbyterian Homes to develop a \$250,000,000 multi-use campus. We have been working with them for years. They are doing Pay Go TIF. We worked with re-developer to come up with an agreement for TIF Plan. And now they have broke ground. We had to de-certify the district and then re-certify the project. We do work on TIF plans. We do annual cash flows. We do assist in the annual report for the state."

Moegerle, "Economic development is helping them come. I don't know if you have taken a look at East Bethel. I am not optimist that they will come just because we have infrastructure. If that is correct, what are the most common types of financing? What do you see other cities of our size doing to develop?" Casperson, "They are certainly doing all of those kinds of financing. I can't say that one is more common than the other. But having a G.O. Bond is a little more common than the other." Moegerle, "The "Pay As You Go TIF, how difficult is that?" Casperson, "If the needs are for the developer that they need the funds up front, then it will not work for them. Schnackenberg, "It is important to note with doing G.O. TIF bond, is the research and modeling that goes in front of it so you know what kind

of cash flow is coming off of it. That is something we have been very careful with.” Davis, “Assuming you have experience with creating TIF Districts?” Schnackenberg, “We have done this with Wayzata.”

Springsted, Inc., Doug Green and Tony Schertler introduced themselves and said they are here on behalf of Paul Steinman and Kathy Aho. Green, “We have had the opportunity to work with you in the past, but didn’t really get into this specific project. We have been headquartered in St. Paul for 60+ years. We work exclusively with public sector organizations. We do that to avoid conflict of interest that would be with being the buyer and seller of bonds. Or in economic development services, not turning around and working with a City on one project and then working for a developer on the other project. We are Minnesota based, but are a National firm. The yellow states are where we have done work. This is our home and where we are staying. You get local personalized service. Kathy lives in North Branch. This city really is our neighbor.

Most of you are familiar with our team, Kathy and Paul. And if you have been in local government you might know Jerry Sorenson, he heads up our bond services department. Springsted is unique, we have five practice groups. We have public finance, economic development, extensive human resources, planning and financial planning, and investment. What we try to do is develop services to touch every aspect of the development.”

Schertler, “Taking some of the new private value and redirecting it for public purpose. We only work for taxpayers, the public sector. Consequently we have a very conservative approach. The name of game is highest public outcome for the lowest public cost. A component of cost is risk. On the Tax Increment Financing; in Minnesota, it allows you to attach public purpose outcome from the new investment. You are allowed to trap the county and school districts portion of that and redirect it into a legitimate public purpose cost. Your Tax Increment Plan should conform to your Comprehensive Plan. It is a very fact specific kind of tool. We do this a lot. We have seen quite a few of examples in unanticipated types of development so we think we are pretty good at measuring those revenues. Part of the conversation is to make sure they only get what they need. You are the ultimate decider when we present the plan to you. We are looking at about four tests. You want to make sure your dollars are needed. What is driving the gap? What is the reason they can’t drive this on their own? The ultimate value that is created here can’t be created without these tools. Tax Increment Financing can increase tax base and jobs. Our expertise is primarily revenue projections. Our job is to make sure we know what it costs you to borrow money and make sure we sensitize that revenue stream. We always try to make a project pay for itself.”

Green, “Looking at a project this size, looking at the best way to finance that and get lowest cost of capital. I have outlined some things to think about. In financing terms, \$300,000 is very small. We would look at, “Can we do competitive sales?” Hopefully, we will get someone very aggressive and they are going to have a very good bid. We would go out and negotiate specifically with an underwriter. We should be able to get you an interest rate just as if you sold them competitively.”

DeRoche, “Are you just looking at Aggressive Hydraulics? Because the City has lot more commitments than just them.” Green, “It changes with the market, with solid credit rating, underwriters are to look at all the opportunities to bid on bonds and you get something too

small and they are going to say it is not worth my time. We are not going to get any bids, or just get one. The better option would be to negotiate directly. Next consideration would be whether we go to a bond underwriter or regional bank? Almost always a bond underwriter would be able to provide better rates. Look at value of credit rating. Would lower credit rating pay for itself. Then we get into tax options. If look at \$300,000 loan/bond annual difference isn't much, but would provide security."

Lawrence, "Obviously we are looking at a lot of TIF work coming up and we want to make sure we would get best bang for buck." Moegerle, "And the best advice too." Green, "Really anything. If you issue bonds to finance infrastructure the same finance options apply." Moegerle, "Page 3, at the top it says, "Proposed Development by the City would not reasonably be expected to occur..." Is that also Springsted's opinion?" Schertler, "What we would do is verify that fact so you would have those facts in the findings of your formal adoption of the TIF Plan. We would approach that by looking at the operating cash flow of the business. And understand what those debt costs would be. So, you can understand, if we don't help these guys, this is what the result would be."

Adjourn

DeRoche made a motion to adjourn at 7:30 PM. Moegerle seconded; all in favor, motion carries.

Attest:

Wendy Warren
Deputy City Clerk