

To: **Mayor and City Council**  
Through: **Ryan Schroeder, City Manager**  
From: **Char Stark, Finance Director**  
Date: **January 25, 2020**

## **Financial Advisor**

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### **BACKGROUND INFORMATION:**

From the January 3, Council meeting there were questions raised on the City's Financial Advisor. Tonight, I have brought Stacie Kvilvang, Senior Municipal Advisor for the City of West St. Paul. Stacie will be here to answer questions as they arise during tonight's presentation of West St. Paul's Finances. Below is some background history from 2016 through 2020.

### **West St Paul 2020 Fiscal Position, Financial Policies and Projections December 2020**

#### **Background**

At year-end 2016, the City of West St. Paul was in the following financial position:

- Cash within the entire organization was at \$13.7 million
- Debt across all funds was at \$40 million
- Net cash was in decline as debt to be issued in 2017-2019 would be an additional \$26 million of which \$12 million was for previously incurred Robert Street project costs with the remainder for additional infrastructure projects in queue
- Taxable market values had not yet recovered from pre-recession (2008) levels

#### **Response**

The City Council addressed financial challenges by adopting a number of policy changes including:

- Recrafting Capital Equipment and Capital Improvement Plans to avoid the need for future debt issuance
- Adoption of two-year budgets beginning with the 2019-20 budget adopted in 2018
- Adoption of new fiscal policies and ten year financial plans and projections
- Implementation of Local Option Sales Tax in 2020 toward collector pavement management projects
- Direction to pursue third party funding for infrastructure projects
- Supported and partnered with Dakota County toward roadway, sidewalk gap, library, and park improvements within West St. Paul

## Current YE 2020 Financial Position

At year-end 2020, City staff is projecting:

- \$53 million in outstanding debt
- \$33 million in cash across all funds
- Projecting positive net cash achievement by 2027 (note: significant progress since 2016 even as additional debt issuance has been required)
- Taxable market values have exceeded previous pre-recession highs with continued growth projected

## Financial Plan and Policy Direction

Through the various policy documents, the City Council has set West St. Paul on a path toward long-term financial improvements. The summation of this policy direction follows:

- *Achieve positive cash by 2027, retire or refund all existing debt by 2035 minimizing new debt issuance*
  1. Cash Balance targets have been adopted for all major funds to improve liquidity and financial flexibility
  2. Excess year-end revenues are distributed to Debt Reduction (35%), Equipment Replacement (25%), Building Fund (25%), Pavement Management (15%) to strengthen fiscal capacity
  3. Debt may be issued for forcemain/lift station replacement between 2021 and 2023 with all other utility, roadway, park, and facilities improvements conducted on a pay-go basis allowing annual reductions in outstanding debt
  4. Projects eligible for third party funding are prioritized
  5. Debt mitigation fund created and call dates monitored to pay off or refund high interest and/or long term debt
- *Allocate future reductions in annual debt levies toward moderation of tax rate and capitalization of infrastructure and facilities funds*
  1. Priority 1 and 2 pavement management projects partially funded through sales tax, MSA and related funds. Current gap in funding for neighborhood streets
  2. Future major maintenance and remodel projects at City Hall, Public Works, South Metro Fire require funding to maintain integrity of the assets
- *Allocate sidewalk levy to sidewalk gaps within pavement management projects and to local match for ped/bike grant funded projects*
- *Maintain pay-go approach to all facilities and infrastructure projects outside of lift station/forcemain projects currently in queue*

## Conclusion

The fiscal direction that existed at YE 2016 was not sustainable. The past two City Councils have course corrected. Continuance of the current fiscal direction/policies will create significant benefit to property taxpayers, residents, businesses and other stakeholders within the community. Benefit would accrue in future tax rate moderation. The larger benefit is the opportunity to reallocate annual tax levies currently dedicated toward debt, instead, to value add expenditures such as pavement management and community facility improvements.

Fiscal Agent's Role:

Financial Management-Ehlers staff can help with strategic planning, policy development, projection modeling and utility rate analysis. The City has requested help with policy development for the debt management piece of the City's financial policies.

Economic Development & Redevelopment-Ehlers can assist with planning and project management, Feasibility & Cash flow analysis, Developer selection & Negotiation, TIF/Special District Creation & Management. The City utilizes nearly all of these services.

Debt Issuance & Management-The City utilizes the services of Debt issuance and all of the required reporting that comes with issuing debt. Reporting to the IRS on the 8048 form, five year arbitrage calculations and the final calculation as well as the annual reporting of Continue disclosure.

Investments & Treasury Management – The City began using Ehlers for this service in 2019. Debt issuance funds must be kept separate from the operating cash. In prior year’s the 4M fund was utilized. Investment opportunities were limited with the 4M fund.

Prior Year’s Expenses:

<i>Year</i>	<i>Bonds (OS, marketing, sale, closing, disclosure, paying agent</i>	<i>TIF District/TIF Administration</i>	<i>Development</i>	<i>TOTAL</i>
<b>2017</b>	56,336	15,698	0	72,034
<b>2018</b>	58,828	9,280	20,398	88,506
<b>2019</b>	66,860	6,443	6,815	80,148
<b>2020</b>	29,200	5,765	84,814	119,779

Other Dakota County Cities:

<b>City</b>	<b>Financial Advisor</b>	<b># of Years</b>	<b>Services</b>	<b>Other</b>
Apple Valley	Northland	Forever	All Services- except Arbitrage	Arbitrage-The Arbitrage Groups out of Hudson
Burnsville	Ehlers	16+	All Services	
Eagan	Ehlers-Partial	20+	Economic Development	
Inver Grove Heights	Ehlers	Nearly 30 years	All Services	
Lakeville	Northland	1 year- previously Baker Tilly (Springsted)	All Service except arbitrage calculations	Continue to use Baker Tilly for arbitrage calculations
Mendota Heights	Ehlers	20+	All Services	
Rosemount	Ehlers-Partial	12	Economic Development	
South St. Paul	Ehlers	On and off 20 yrs	All Services	
Sunfish Lake	Ehlers	15 yrs	All Services	
West St. Paul	Ehlers	30 plus years	All Services	

Total # of MN Cities	Ehlers	230		
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**FISCAL IMPACT:**

		Amount
<b>Fund:</b>		<b>NA-Informational</b>
<b>Department:</b>		
<b>Account:</b>		

**STAFF RECOMMENDATION:**

**Attachments:**

- Presentation-Char
- Ehlers overview and fee structure