LeVander,
Gillen &
Miller, P.A.

ATTORNEYS AT LAW

TIMOTHY J. KUNTZ
DANIEL J. BEESON
*KENNETH J. ROHLF
○STEPHEN H. FOCHLER
Δ✧JAY P. KARLOVICH
ANGELA M. LUTZ AMANN
*KORINE L. LAND
□*DONALD L. HOEFT
DARCY M. ERICKSON
DAVID S. KENDALL
*BRIDGET McCAULEY NASON
TONA T. DOVE
AARON S. PRICE

HAROLD LEVANDER
1910-1992

ARTHUR GILLEN
1919-2005

ROGER C. MILLER
1924-2009

*ALSO ADMITTED IN WISCONSIN
✧ALSO ADMITTED IN NORTH DAKOTA
○ALSO ADMITTED IN MASSACHUSETTS
□ALSO ADMITTED IN OKLAHOMA
ΔALSO ADMITTED IN ARIZONA

MEMO

TO:	**Sunfish Lake Mayor and Councilmembers**
FROM:	**Timothy J. Kuntz, City Attorney**
DATE:	**August 30, 2017**
RE:	**Tax Impact Report relating to Charlton Road Financing September 5, 2017 Council Meeting; Agenda Item 8(h)**

Section 1. Background. The City asked Ehlers & Associates to prepare a report and a number of schedules to show what the tax levy impact would be in future years if a general tax levy financed 60% of the Charlton Road Project costs with special assessments financing 40%. The Ehlers report is attached. It portrays the cumulative tax impact of the Charlton Road Project financing, together with the other outstanding bond issues that would remain in place.

Section 2. Council Action. The Council is asked to have a preliminary discussion regarding the attached report. No formal action is being requested at this time.

Attachment

633 SOUTH CONCORD STREET • SUITE 400 • SOUTH SAINT PAUL, MINNESOTA 55075 • 651-451-1831 • FAX 651-450-7384
OFFICE ALSO LOCATED IN SPOONER, WISCONSIN

Memo

To: Mayor and City Council of Sunfish Lake, MN

From: Steve Apfelbacher and Jessica Cook

Cc: Tim Kuntz and Ann Lanoue

Date: August 25, 2017

Subject: Financial Analysis of Charlton Road Project

The City has requested Ehlers to complete an analysis of the financial impact that the proposed Charlton Road and associated drainage project will have on the City's debt levy and taxpayers.

Project Background

The proposed Charlton Road project is estimated to cost $690,000 inclusive of engineering, financing, and legal fees. In addition, the proposed drainage improvement project will cost $35,000 for a total project cost of $725,000 (including costs of issuance and construction costs). We understand that approximately 40% of the Charlton Road project and 100% of the drainage project will be assessed, for a total assessment of $311,000.

The projects will commence in 2018 and the City intends to issue bonds in 2018 for the full project cost of $725,000. The City will levy the assessments in 2018 for collection in 2019. Historically, assessments have been levied over a ten-year term, and we have assumed a similar term for the Charlton Road project.

The portion of the Charlton Road project that is not assessed will be paid with a property tax levied against all property owners in the City. This debt levy, together with special assessment receipts, is required under state law to equal 105% of the annual principal and interest on the bonds.

Existing Debt Levies

The Charlton Road debt levy will be added to debt levies already in place for three prior bond issuances: the Series 2009A, Series 2014A, and Series 2017A. In modeling the proposed bond issue for the Charlton Road project, we mapped out the prior debt levies to ensure that the proposed new debt will be evaluated in the larger context of all outstanding debt.

The payment obligation and revenue sources for the outstanding debt is shown on Appendix A. The sources of revenue available to repay the bonds includes "cash on hand." This cash represents prepaid assessments. Historically, many property owners have chosen to pre-pay their assessments to avoid interest expense. These pre-paid assessments received by the City are the source of the "cash on hand" used to pay a portion of the debt service.

This fall the City will need to levy for the 2017-01 Street Project (Roanoke Road Overlay and Salem Church Road Reconstruction). This will increase the annual debt levy from $41,827 to $81,957. The annual debt levy will then begin to decline in 2020 as outstanding debt is retired. In looking at the proposed 2018 financing, our goal is to take advantage of the future declines in the debt levy to help offset tax impacts from the Charlton Road project.

Proposed Financing for Charlton Road

The proposed 2018A bond issue to finance the Charlton Road project is expected to be approximately $755,000. The sources and uses of funds are detailed below. The par amount of the bonds will be refined after the project is bid.

Sources & Uses	
Sources Of Funds	
Par Amount of Bonds	$755,000.00
Total Sources	**$755,000.00**
Uses Of Funds	
Total Underwriter's Discount (1.500%)	11,325.00
Costs of Issuance	22,000.00
Deposit to Capitalized Interest (CIF) Fund	14,808.75
Deposit to Project Construction Fund	703,000.00
Rounding	3,866.25
Total Uses	**$755,000.00**

The City of Sunfish Lake has historically issued its bonds with a ten-year term to match the ten-year term on the special assessments. The City may wish to consider a 15-year term on the bonds for Charlton Road because it is a sizeable project. In general, a shorter term will reduce total interest cost but result in a higher annual payment. We have provided both options for the City's consideration.

Preliminary Tax Impacts of Street Projects

Appendices B and C show the levy impact of the ten-year and fifteen-year bond options. For these scenarios we estimated the average interest rate on the bonds at current rates plus .5%. Extending the term from ten to fifteen years will increase the average coupon rate on the bonds from an estimated 2.80% to 3.17%, resulting in an overall $76,412 increase in interest expense on the project.

Comparison of 10-Year and 15-Year Bond Options		
	Ten-Year Term	**Fifteen-Year Term**
Average Annual Debt Service on 2018A Bonds	$90,098	$65,160
Total Interest Cost on 2018A Bonds	$145,986	$222,398
Peak Annual Total Debt Levies	$102,170	$81,957
Peak Annual Tax Impact on a $500,000 Home from Total Debt Levies	$260.15	$208.68
Peak Annual Tax Impact on a $1,000,000 Home from Total Debt Levies	$585.33	$469.53

Next Steps

The purpose of providing this levy and tax impact analysis is to give the Council financial information that can inform the decision of whether to proceed with the Charlton Road project in 2018. Decisions about the structure of the bonds, such as whether to issue for a ten or fifteen-year term, may be made after the project has been bid and before bonds are issued.

Appendix A

Sunfish Lake, Minnesota

Debt Levies on Outstanding Debt

		2009A Bonds				2014A Bonds					2017A Bonds			Total
Collect Year	Bond Year	105% P&I	Less Projected Assessments	Less Cash On-Hand	Debt Levy	105% P&I	Less Projected Assessments	Less Projected Assessments	Less Cash On-Hand	Debt Levy	105% P&I	Less Projected Assessments	Debt Levy	Current Debt Levy
2015	2016	45,977	4,423	13,754	27,800	38,363	13,920		12,236	12,207	-	-	-	40,007
2016	2017	45,281	4,217	13,064	28,000	38,755	13,488	1,039	10,868	13,361	-	-	-	41,361
2017	2018	44,536	4,012	12,424	28,100	38,362	13,056	913	10,665	13,727	-	-	-	41,827
2018	2019	43,740	3,806	11,834	28,100	43,218	12,624	884	10,366	19,344	51,917	17,405	34,513	81,957
2019	2020	42,895	3,601	11,194	28,100	42,373	12,192	855	10,067	19,259	51,119	16,894	34,225	81,585
2020	2021					41,527	11,760	826	9,767	19,175	50,321	16,384	33,938	53,112
2021	2022					40,682	11,328	796	9,468	19,090	49,523	15,873	33,650	52,740
2022	2023					39,837	10,896	767	9,169	19,005	48,725	15,363	33,363	52,368
2023	2024					38,808	10,464	738	8,869	18,737	47,759	14,852	32,907	51,644
2024	2025					37,779	10,032	709	8,570	18,468	46,793	14,342	32,451	50,920
2025	2026							679			51,077	13,831	37,246	37,246
2026	2027										49,802	13,321	36,481	36,481
2027	2028										48,526	12,810	35,715	35,715
2028	2029											-	-	-
2029	2030											-	-	-
2030	2031											-	-	-
2031	2032											-	-	-
2032	2033											-	-	-
2033	2034											-	-	-
2034	2035											-	-	-
2035	2036											-	-	-
2036	2037											-	-	-
2037	2038											-	-	-
2038	2039											-	-	-
2039	2040											-	-	-
Total	Total	222,429	20,060	62,270	140,100	399,704	119,760	8,205	100,045	172,374	495,563	151,075	344,488	656,963
		Bonds callable 2/1/2015				Bonds callable 2/1/2022					Bonds callable 2/1/2022			

Appendix B

Sunfish Lake, Minnesota

Outstanding & Projected Debt Levies

Option 1: Ten-year Bonds Issued for Charlton Road Project

		2009A Bonds				2014A Bonds					2017A Bonds			Total	Charlton Road 2018A Bonds - Estimated			Total
Collect Year	Bond Year	105% P&I	Less Projected Assessments	Less Cash On-Hand	Debt Levy	105% P&I	Less Projected Assessments	Less Projected Assessments	Less Cash On-Hand	Debt Levy	105% P&I	Less Projected Assessments	Debt Levy	Current Debt Levy	105% P&I	Less Projected Assessments	Debt Levy	Projected Debt Levy
2015	2016	45,977	4,423	13,754	27,800	38,363	13,920		12,236	12,207	-	-	-	40,007	-	-	-	40,007
2016	2017	45,281	4,217	13,064	28,000	38,755	13,488	1,039	10,868	13,361	-	-	-	41,361	-	-	-	41,361
2017	2018	44,536	4,012	12,424	28,100	38,362	13,056	913	10,665	13,727	-	-	-	41,827	-	-	-	41,827
2018	2019	43,740	3,806	11,834	28,100	43,218	12,624	884	10,366	19,344	51,917	17,405	34,513	81,957			-	81,957
2019	2020	42,895	3,601	11,194	28,100	42,373	12,192	855	10,067	19,259	51,119	16,894	34,225	81,585	62,732	45,095	17,637	99,222
2020	2021					41,527	11,760	826	9,767	19,175	50,321	16,384	33,938	53,112	88,247	43,696	44,552	97,664
2021	2022					40,682	11,328	796	9,468	19,090	49,523	15,873	33,650	52,740	86,916	42,296	44,620	97,361
2022	2023					39,837	10,896	767	9,169	19,005	48,725	15,363	33,363	52,368	90,699	40,897	49,803	102,170
2023	2024					38,808	10,464	738	8,869	18,737	47,759	14,852	32,907	51,644	89,009	39,497	49,512	101,155
2024	2025					37,779	10,032	709	8,570	18,468	46,793	14,342	32,451	50,920	87,208	38,098	49,110	100,030
2025	2026							679			51,077	13,831	37,246	37,246	101,047	36,698	64,349	101,595
2026	2027										49,802	13,321	36,481	36,481	98,592	35,299	63,294	99,774
2027	2028										48,526	12,810	35,715	35,715	96,004	33,899	62,105	97,820
2028	2029											-	-	-	130,032	32,500	97,533	97,533
2029	2030											-	-	-		-	-	-
2030	2031											-	-	-		-	-	-
2031	2032											-	-	-		-	-	-
2032	2033											-	-	-		-	-	-
2033	2034											-	-	-		-	-	-
2034	2035											-	-	-		-	-	-
2035	2036											-	-	-		-	-	-
2036	2037											-	-	-		-	-	-
2037	2038											-	-	-		-	-	-
2038	2039											-	-	-		-	-	-
2039	2040											-	-	-		-	-	-
Total	Total	222,429	20,060	62,270	140,100	399,704	119,760	8,205	100,045	172,374	495,563	151,075	344,488	656,963	930,486	387,973	542,514	1,199,477
		Bonds callable 2/1/2015				Bonds callable 2/1/2022					Bonds callable 2/1/2022							

Appendix C

Sunfish Lake, Minnesota

Outstanding & Projected Debt Levies

Option 2: Fifteen-year Bonds Issued for Charlton Road Project

		2009A Bonds				2014A Bonds					2017A Bonds			Total	Charlton Road 2018A Bonds - Estimated			Total
Collect Year	Bond Year	105% P&I	Less Projected Assessments	Less Cash On-Hand	Debt Levy	105% P&I	Less Projected Assessments	Less Projected Assessments	Less Cash On-Hand	Debt Levy	105% P&I	Less Projected Assessments	Debt Levy	Current Debt Levy	105% P&I	Less Projected Assessments	Debt Levy	Projected Debt Levy
2015	2016	45,977	4,423	13,754	27,800	38,363	13,920		12,236	12,207	-	-	-	40,007	-	-	-	40,007
2016	2017	45,281	4,217	13,064	28,000	38,755	13,488	1,039	10,868	13,361	-	-	-	41,361	-	-	-	41,361
2017	2018	44,536	4,012	12,424	28,100	38,362	13,056	913	10,665	13,727	-	-	-	41,827	-	-	-	41,827
2018	2019	43,740	3,806	11,834	28,100	43,218	12,624	884	10,366	19,344	51,917	17,405	34,513	81,957			-	81,957
2019	2020	42,895	3,601	11,194	28,100	42,373	12,192	855	10,067	19,259	51,119	16,894	34,225	81,585	44,223	46,028	(1,805)	79,780
2020	2021					41,527	11,760	826	9,767	19,175	50,321	16,384	33,938	53,112	70,106	44,535	25,571	78,683
2021	2022					40,682	11,328	796	9,468	19,090	49,523	15,873	33,650	52,740	69,185	43,042	26,142	78,882
2022	2023					39,837	10,896	767	9,169	19,005	48,725	15,363	33,363	52,368	68,169	41,550	26,619	78,987
2023	2024					38,808	10,464	738	8,869	18,737	47,759	14,852	32,907	51,644	67,082	40,057	27,025	78,669
2024	2025					37,779	10,032	709	8,570	18,468	46,793	14,342	32,451	50,920	65,924	38,564	27,360	78,280
2025	2026							679			51,077	13,831	37,246	37,246	80,446	37,071	43,375	80,620
2026	2027										49,802	13,321	36,481	36,481	78,713	35,578	43,135	79,615
2027	2028										48,526	12,810	35,715	35,715	76,886	34,086	42,801	78,516
2028	2029											-	-	-	90,715	32,593	58,122	58,122
2029	2030											-	-	-	56,695	-	56,695	56,695
2030	2031											-	-	-	60,362	-	60,362	60,362
2031	2032											-	-	-	58,551	-	58,551	58,551
2032	2033											-	-	-	61,937	-	61,937	61,937
2033	2034											-	-	-	59,858	-	59,858	59,858
2034	2035											-	-	-		-	-	-
2035	2036											-	-	-		-	-	-
2036	2037											-	-	-		-	-	-
2037	2038											-	-	-		-	-	-
2038	2039											-	-	-		-	-	-
2039	2040											-	-	-		-	-	-
Total	Total	222,429	20,060	62,270	140,100	399,704	119,760	8,205	100,045	172,374	495,563	151,075	344,488	656,963	1,008,851	393,104	615,747	1,272,709
		Bonds callable 2/1/2015				Bonds callable 2/1/2022					Bonds callable 2/1/2022							