



**CITY OF CARLTON**  
**CITY HALL PROJECT ADVISORY COMMITTEE MEETING**  
**TUESDAY, JUNE 12, 2018, 6:00 P.M.**  
**CITY HALL, 191 EAST MAIN STREET, CARLTON**

*The Mission of the City of Carlton is to safeguard and enhance the vitality and livability of the community by providing essential services with professionalism and integrity.*

*The purpose of the Carlton City Hall Project Advisory Committee, as appointed by the Mayor and City Council, is to participate with project design and funding of a new City Hall facility. This is a group of community members that have an interest in the City Hall project's success or have particular experience beneficial to the Committee.*

<b>1. Call To Order – Roll Call</b>	<b><u>Pages</u></b>
1) Changes to the Agenda	1 – 2
<b>2. Agenda Items</b>	
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<b>3. Adjournment</b>	



## MEMORANDUM

**To:** The Members of the City Hall Project Advisory Committee  
**From:** Dennis Durham, City Manager  
**Subject:** Agenda Topics  
**Date:** June 11, 2018

### 1. Approval of Minutes

Staff recommends that at its final meeting on June 12, 2018, that members of the City Hall Project Advisory Committee approve and authorize the Chair to sign the meeting minutes from September 5, 2017, as submitted, for preservation and permanent retention in the City's historical records.

### 2. Reaffirm Project Recommendation to City Council

This agenda item is to allow the committee to reaffirm the original project recommendation provided to City Council to seek a general obligation bond for the public safety portion of the city hall project.

### 3. Committee Closure

Although the recommendation to place a measure for general obligation bond on the May 15, 2018 ballot did not pass, the City Hall Project Advisory Committee completed their original purpose and is ready to be dissolved by the City Council. Any continued action regarding this project will be assumed by either a reactivation of the Friends of the Carlton Police Department or by the establishment of a new citizens' advisory committee as desired by City Council.

If any current members of this advisory committee would like to be considered to assist with possible future committees or if they have suggestions of new citizens that may be interested, please submit those suggestions to city staff. Minutes from this final meeting will be approved by the City Council upon the dissolution of this committee by resolution at their regular meeting on July 3, 2018.



**City Hall Project Advisory Committee Minutes**  
**SEPTEMBER 5, 2017, 3:30 PM**  
**City Hall, 191 East Main Street**

### 1. CALL TO ORDER & ROLL CALL

The meeting was called to order at 3:35 PM. No changes were made to the agenda.

**Members Present:**

Pat Swanick, Chair	David Blanchard	Christine Andrus
Lauri Lewis	Andy Eldien	Terry McIntyre
Don Schmid	Tristan Shell-Spurling	Brian Rake (arrived at 3:45 pm)

**Members Absent:** Scott Carl, Council Liaison (excused)

**Staff Present:**

Kevin Martinez, Chief of Police	Bryan Burnham, Public Works Director
Christy Martinez, Finance Director	Chad Olsen, City Manager
Megan George, Assistant to the City Manager	

### 2. AGENDA ITEMS

#### 1) Approval of Minutes

**3:35 pm**

**MOTION:** Blanchard/Eldien to approve the City Hall Project Advisory Committee minutes from August 22, 2017, as presented. Motion carried (8 Yes [Blanchard, Eldien, Swanick, Lewis, Schmid, Shell-Spurling, Andrus, McIntyre]/0 No/2 Absent [Rake, Carl] /0 Abstain).

#### 2) Financial Analysis – Chad Olsen

**3:37 pm**

Pat Swanick provided a brief synopsis of the committee's previous meeting. Staff had prepared a financial analysis for the one-story option, given the unanticipated cost estimate provided by the architect at the July 11, 2017 meeting (see full meeting packet). After discussion, the committee asked staff to prepare a more in-depth analysis of one of the construction options included in the report.

Megan George summarized the follow-up report provided by staff. The committee had asked five specific questions during the meeting that staff sought to answer in this report: (1) What is the tax rate per \$1,000 of assessed value to cover a GO bond to finance the police station component? 2.3m? 2.15m? 2m? (2) How will the General Fund contribute \$50,000 (+/-) debt payments to finance their share of the general government component? (3) How will the Sewer Fund contribute \$50,000 (+/-) debt payments to finance their share of the general government component? (4) What other bonds are on Carlton resident's taxes? What are their timelines? Are there any GO bonds planned in the near future? (5) Are any one-time revenues available for the project?

Moving question-by-question, George summarized the report. (1) The estimate provided in the original report was \$0.90-\$1.00 per \$1,000 of assessed value. Distinguishing between \$2.3m, \$2.15m, and \$2m the estimates span \$1.111, \$1.022, and \$0.933 per \$1,000 of assessed value. (2) The General Fund will be able to finance their share of the general government component through cutting services and reducing the 20% reserve to approximately 10%. (3) The Sewer Fund will be able to finance their share of the general government component through undergoing a rate study – the same study the Water Fund went through in previous years. (4) There are five general obligation bonds currently on Carlton resident's tax rolls. The earliest one to roll of is in 2021. The City of Carlton has no plans to go out for another general obligation bond in the near future. (5) There are potentially several one-time revenues available to reduce the overall project cost, or cost for one of

the two components (general government and police station). Sources include the sale of city assets including the property on 6<sup>th</sup> and Main Street, monies from the Carlton Urban Renewal Agency, project reserves, and grants. Swanick asked if the property on 1<sup>st</sup> and Monroe was also eligible for sale, and Chad Olsen replied that it was. The property is located within the urban renewal district, so Olsen is open to selling it but would prefer for it to be for redevelopment efforts.

Swanick commented that he was surprised by how tight the General and Sewer Funds are. Olsen responded that he was not concerned about the Sewer Fund's ability to finance their contribution. The process that has already begun will provide the needed capacity. It will take 6-12 months to complete the process, but after that point the \$50,000 (+/-) transfer will be sustainable over time.

Olsen said that he is, however, concerned about the General Fund's capacity over the long-term to finance their share. The reason it is such an issue is because the commitment would be for 40-years. Item 2(a) details service cuts that could be made to increase capacity. Of those cuts, approximately \$20,000 is discretionary spending for the Council. The remaining balance is an assumed cut from the municipal pool as the department gains experience. In addition, under 2(c) we included information on the rental property. The net loss of income would be approximately \$15,000 if the properties were lost. So, truly, the capacity we need in the General Fund is closer to \$65,000-\$70,000. Then you add in item 2(b) – the reduced reserve fund – but even including a \$15,000 per year transfer creates a downward slope and is unsustainable after the five-year period. Essentially, staff found that the \$50,000 per year transfer is not sustainable over time without taking additional action.

Steps to create further capacity may include reexamining the allocation between the General, Water, and Sewer Funds. Currently they are split 1/3, 1/3, 1/3 for project reserves. There may be an argument to increase the Water and Sewer Funds allocation and reduce the General Fund allocation. In addition, conversation thus far has assumed that general fund reserves for the project would be dedicated to the police station component to reduce the cost of the general obligation bond. However, it may make more sense to dedicate those funds and other one-time revenues to the general government component instead to reduce the burden on the general fund.

The committee discussed the General Fund's five-year forecast and expressed skepticism with the revenue assumptions. Olsen said that a 1% inflator was applied to revenue. This was intentional because you want to be conservative – especially when estimating things outside of the City's control – like development. Olsen explained that for discussion purposes the committee should assume that each residence added to the city is a net loss because of the services provided. Commercial development is where the city makes its true money. A 3% inflator was applied to the materials and services and personal services categories because the city doesn't have control over those as well. Between the 2017-18 proposed and 2018-19 projected there is a drop in revenue. This is due to the one-time sale of the property on 6<sup>th</sup> and Main Street. Olsen said that over time the General Fund's contribution will be approximately \$1.2m. Ideally, we need to reduce that to \$750,000 total.

David Blanchard asked that staff provide a brief synopsis of the previous meeting's report for the benefit of committee members who were unable to attend the previous meeting. Olsen said that the while other communities have been able to substantially finance their projects with urban renewal money, that will not be an option in Carlton because the maximum indebtedness was set for \$3.7m and half of it has already been spent. The general obligation bond is the lynch pin to the whole project at this point. If we don't pursue a bond, then we won't be able to do much because of the constraints on the general fund.

Blanchard said that the other option is to do nothing. However, given the construction climate if we don't do something today we will never be able to do something. We can't set aside money fast enough to save for the project. Plus, by waiting the total project cost goes up. Brian Rake said that remodeling was also not a long-term solution because we'd be in the same position in ten-years.

Terry McIntyre said that remodeling the buildings will last longer than 10-years. Rake said that the buildings may last longer than ten-years, but that staff would outgrow the size of the buildings. McIntyre said that he doesn't think the community will support a general obligation bond. Rake said that the thing that convinced him was the amount of outside resources staff has been able to attain for other projects like the \$4.5m earmark for the City's water system. Normally, this would be paid through water rates. Now it won't. Rake expressed frustration with the lack of consistent attendance at meetings and resulting time required to summarize discussions at previous meetings. McIntyre left the meeting at 4:29 pm.

Lauri Lewis said that after the conversations today she is questioning her certitude from the previous meeting. The General Fund cannot support the \$50,000 (+/-) transfer sustainably, so perhaps pursuing this facility is not a wise use of City funds.

Swanick summarized the committee's conversation from the previous meeting and current meeting. He said that the committee has arrived at the realization that an additional source of funds is required to make the project feasible. The committee wants to give residents the opportunity to vote, instead of preemptively voting the general obligation bond down. The goal for the committee today is to decide whether or not to recommend pursuing a general obligation bond for the police station component and instruct staff to continue looking at the general government component.

**MOTION: Swanick/Rake** to recommend to the City Council a general obligation bond of no more than \$2.3m to finance the police station component of the total project. Motion carried (8 Yes [Blanchard, Eldien, Swanick, Lewis, Schmid, Shell-Spurling, Andrus, Rake]/0 No/2 Absent [McIntyre, Carl] /0 Abstain).

Andy Eldien said that he is nervous about the community's response and thinks it will be important to talk about what is being done about the City's street system, as that is a huge priority in this community. Rake said it will be important to bring the community through this whole process, as the committee has gone through. Don Schmid said he doesn't think the community will support the bond. Tristan Shell-Spurling said that we need to think about it not as a luxury item – like the pool was – but as a necessity. This is a public safety building. Christine Andrus said that from her conversations with the community she doesn't think people appreciate the need for this facility. She thinks that staff needs to make this simple for people to understand. Olsen briefly summarized the work of the Streets, Stormwater, and Pedestrian Advisory Committee. They are going to the City Council this evening with their recommendation.

### 3) Group Photo

5:12 pm

### 3. NEXT MEETING

5:12 pm

The committee will attend the next City Council Work Session scheduled for Tuesday, September 19<sup>th</sup> at 6:00 pm to discuss their recommendation with the City Council. From that point, George will work with the committee to schedule a meeting to discuss the Council's actions, if any.

### 4. ADJOURNMENT

5:13 pm

The meeting adjourned at 5:13 pm.

**APPROVED** by the City Hall Project Advisory Committee on June 12, 2018.

ATTEST:

\_\_\_\_\_  
Jennifer Nelson, City Recorder

\_\_\_\_\_  
Pat Swanick, Chair



**City Hall and Public Safety Facility Financing Assessment - Committee Recommendation**

FFA Architecture and Interiors, Inc. recently completed the 25% design and magnitude of cost estimate for the combined City Hall and Public Safety Facility Project. Unfortunately, cost estimates for the one-story and two-story options were substantially higher than anticipated. Given the difference between the predesign estimates and the 25% design estimates the project’s financing creates unforeseen problems.

The City Hall and Public Safety Facility Project Advisory Committee met with staff in August and September 2017 to discuss financing options for the project moving forward. Staff prepared two assessments (included in full as attachments to this report and summarized below) that outline the financial constraints and opportunities for the project. At this point, the committee is making two recommendations:

**1) Pursue a general obligation bond to fund the Public Safety Facility not to exceed \$2.3m**

The committee has considered various financing options for the project. Due to the General Fund’s constraints to finance annual debt service payments and because the Carlton Police Department is a 100% General Fund activity, the committee recommends soliciting community support for a GO bond to construct the Public Safety Facility as presented in the architect’s 25% design drawing.

**2) If the general obligation bond is approved, pursue construction of City Hall simultaneously.**

The committee considers the Public Safety Facility the first priority of the two building components. However, if a general obligation bond is approved to finance the entirety of the Public Safety Facility, the committee recommends constructing City Hall simultaneously using annual contributions from the General, Water, and Sewer Funds to finance debt service for the project.

**Project Constraints**

- 1) The project’s one-story option is approximately double (\$5,928,750) the predesign estimate of \$3m.
- 2) The General Fund’s capacity to contribute to the project is limited and cannot support a payment greater than approximately \$50,000 (+/-) per year;
- 3) Breaking the project into two phases with the Public Safety Facility being the first phase and City Hall being the second phase is not possible with current city resources because the Public Safety Facility can only be financed by the General Fund and the required annual debt service to finance the Public Safety Facility alone is twice the General Fund’s capacity; and
- 4) The project will become cost prohibitive over time given the current estimates, inflation related to public construction projects, and anticipated statewide public construction in the next 5 – 10 years.

**Options Considered**

- 1) Do Nothing;
- 2) Remodel Existing Facilities;
- 3) Construct a New Facility for One Component and Remodel Existing Facility for Other;
- 4) Use Carlton Urban Renewal Agency (CURA) Resources; and
- 5) Pursue a General Obligation (GO) Bond to fund all or part of the project.

## Committee Report Attachment

### Project Considerations

1. The prepared cost estimates assume project construction will begin in the fall of 2018 and be completed in one phase.

Project Cost:	One-Story Option	\$5,928,750
	Two-Story Option	\$7,193,000

2. The one-story option is preferred. The preliminary cost estimate for this option was approximately \$3m, making the 25% design estimate of approximately \$6m double what was anticipated.
3. Project funding scenarios were developed using the USDA loan program based on 40 and 20-year terms and 3.25% financing. Typically, the City uses a 20-year term for infrastructure projects however, the 40-year term is presented to reduce annual debt service payments.
4. The City has been setting aside project reserves in the Capital Improvement Fund (CIF) for the past few years. The current reserve total is \$461,725 and the FY18 yearend estimate is \$412.525. The purpose of establishing the reserve and recurring annual contributions was to identify the City's ability to cash flow \$50,000 per year from each fund for future debt service payments. No determination has been made in how to apply the reserves other than to "pay as you go" for current predevelopment expenses.
5. There are four funds that can contribute to the project; General, Water, Sewer and Street Funds.
  - The **Water Fund** is able to meet annual debt service payments of \$50,000 because this amount has been built into the rate structure.
  - The **Sewer Fund** has been making annual contributions to the project reserve, however the annual contribution is not sustainable under current conditions. The Sewer Fund can meet annual contribution requirements if it is built into the sewer rate schedule.
  - The **General Fund** has been making annual contributions to the project reserve however, the annual contribution is not sustainable under current conditions and will require additional work to create capacity for this fund's \$50,000 contribution by reducing General Fund expenses however, and that would be the maximum without impacting other General Fund services.
  - The **Street Fund** is unable to contribute to the project due to limited financial resources.
6. The Water and Sewer Fund's contributions to the project can only support their operations. These contributions cannot be used to subsidize general government costs like parks or police.
7. The Police Department is a 100% General Fund activity and must be financed exclusively by the General Fund.
8. A two phase approach has been discussed that emphasizes the Public Safety Facility as Phase I (\$2.3m) and the remainder, "General Government" as Phase II (\$3.63m).
  - The General Fund is limited to \$50,000 annual contribution and the \$2.3m Public Safety Facility debt service will range from \$100,000 - \$150,000 per year depending on the term of the loan.
  - The project architect estimates a 5 – 7% construction cost escalator. Projecting a 5% escalator, the project cost increases faster than the City is able to set aside reserves. Beginning in year one the Phase II General Government project cost increases by \$30,000 more than the \$150,000 annual set aside and doubles to nearly \$300,000 at the end of 10 years.

Phase II		
<b>\$3,625,000</b>	<b>5% Inflator</b>	<b>Difference</b>
Year 1	3,806,250	181,250
Year 2	3,996,563	190,313
Year 3	4,196,391	199,828
Year 4	4,406,210	209,820
Year 5	4,626,521	220,311
Year 5	4,857,847	231,326
Year 6	5,100,739	242,892
Year 7	5,355,776	255,037
Year 8	5,623,565	267,789
Year 9	5,904,743	281,178
Year 10	6,199,980	295,237
<b>Total Cost Increase over 10 Years</b>		<b>\$2,574,980</b>

9. The General Fund 5-year forecast identified the Fund’s inability to contribute to future capital projects and maintain the City Council’s financial target of 20% cash reserves. This is due to prior contributions to community projects (pool project, pedestrian and street improvements, and park projects). The Committee believes the Fund’s reserves can be reduced to 10% to assist with future debt service project contributions.

**10. Project Debt Service Requirements**

- Based on the USDA loan program with a 40-year term and 3.25% interest rate, the Police Facility (\$2.3m) annual debt service payment would be \$103,500 from the General Fund.
- Based on the USDA loan program with a 40-year term and 3.25% interest rate, the General Government component (\$3.63m) annual debt service payment would be \$163,500. This amount can be allocated between the General (33%), Water (34%), and Sewer Funds (33%) equally.
- Therefore, by combining the debt service payments for the Public Safety and General Government components, the General Fund’s total annual contribution is estimated to be \$157,500, triple the fund’s proposed capacity.

	Project Cost	Repayment Source		
		General Fund	Water Fund	Sewer Fund
<b>Police Facility</b>	\$2,300,000	\$103,500		
<b>General Government</b>	\$3,628,750	\$54,000	\$55,500	\$54,000
<b>Total</b>	\$5,928,750	\$157,500	\$55,500	\$54,000



11. The Carlton Urban Renewal Agency (CURA) plan was developed primarily to finance City infrastructure projects, and in particular water projects. An argument could be made to contribute to this project however, the decision is subject to Agency's approval. The Agency's maximum indebtedness is limited (\$3.7m) and more than half has either been committed or spent on projects.

## 12. Financing Information

The Committee considered various funding instruments including 1) GO Bond, 2) Commercial Loans, 3) US Department of Agriculture (USDA) – Rural Development Loan, 4) City Funds, and 5) the Carlton Urban Renewal Agency (CURA).

The USDA has a program to make loans to develop community facilities for public use in rural areas and towns of not more than 20,000 people. Projects must be based on taxes, assessments, revenues, fees or other satisfactory sources of money sufficient for operation, maintenance, and reserve, as well as to retire the debt. The maximum term is 40-years and cannot exceed the useful life of the facility. Interest rates are updated quarterly and current rates range 3.25% to 4.50% depending on medium household income (MHI). The City rate will be the lowest "market rate" currently at 3.25%.

### Annual Debt Service Comparison – USDA Loan/40 and 20 Year Term /3.25%

Annual Debt Service – 3.25%			
\$ Millions	20-Year Term	40-Year Term	Difference
1	68,780	45,030	23,750
1.5	103,170	67,545	35,625
2m	137,560	90,060	47,500
2.5	171,950	112,575	59,375
3	206,340	135,090	71,250
3.5	240,730	157,605	83,125
4	275,120	180,120	95,000
4.5	309,510	202,635	106,875
5	343,900	225,150	118,750
5.5	378,920	247,665	131,255
6	412,680	270,180	142,500

The highlighted row in the table identifies the approximate debt service payments for the General Government Facility.

## Construction Options

1. **Do Nothing** – Do not construct the project.
2. **Remodel Existing Facilities** - Relocate the police or general government component to the adjacent commercial building and allow the remaining component to expand into the existing city hall structure. Presumably, both buildings would likely require seismic upgrades and site improvements.

The next step would be to predetermine a project budget. The total General Fund contribution cannot exceed \$50,000/year in debt service, amounting to approximately \$1.1m available for construction. Assuming half is for the public safety component (\$550,000 construction and \$25,000 annual debt service payment) and half is for the general government component (\$550,000 construction and \$25,000 annual debt service payment) the total project would have a maximum construction budget of \$2m - \$2.25m.

3. **Construct a New Facility for One Component and Remodel Existing Facility for Other Component** – This option would build a new facility for either the public safety or the general government component and remodel an existing facility for the other. Building a new facility for the public safety component is not possible...or at the least problematic, because of the General Fund's limited ability to finance annual debt service payments (see item #8 above). However, it may be more feasible to build a new facility for the general government component with existing debt capacity because the Water and Sewer Funds can each contribute in equal parts (see item #9 above). This option has a number of alternatives:

- 1) Build onsite and relocate police to adjacent commercial building;
- 2) Relocate and build a new General Government Facility and remodel the existing City Hall for the police department.

For discussion purposes we can presume a total construction budget of approximately \$3.5m, including all costs. Relocating to a new site will have higher associated costs (purchase, predevelopment, etc.) than using the existing site.

4. **Use of Carlton Urban Renewal Agency (CURA) Resources** – As discussed in item #12 above, the CURA plan was developed primarily for City infrastructure projects and in particular the water system. However, an argument could be made for the CURA to contribute to the project if the Agency determined it was warranted. The Agency's maximum indebtedness is limited (\$3.7m) and more than half has either been committed or already spent on projects. Given the limited CURA resources and the infrastructure needs in the district, I think this option is only possible for a small increment.
5. **General Obligation Bond** – Pursue a GO Bond to fund all or part of the project.
  - a) Bond the entire project at \$5.5m. Annual debt service would be approximately \$247,665 per year, assuming a 40-year term. This would equal approximately \$2.50/1,000 assessed valuation.
  - b) Bond part of the project, the difference between what the City could afford with existing debt capacity (about \$3.5m) and the total project cost \$5.93m with the assumption being the existing project reserves (\$400,000) are used to buy down the needed bond, (bond \$2m). This would equal approximately \$0.90 - \$1/1,000 assessed valuation.
  - c) Bond the police station component and allow the City to finance the general government component with the General, Water and Sewer Funds. The existing General Fund reserves could reduce the police bond to approximately \$2.15m. This is similar to sub-option b) above except the bond is used exclusively for the police station component. This would equal approximately \$0.90 - \$1/1,000 assessed valuation.



## **City of Carlton**

### **Ad Hoc City Hall Project Advisory Committee**

#### **Introduction**

The Carlton City Hall, located at 191 East Main Street, was originally constructed in the 1970s to house general City operations and the Police Department. The facility also includes three metal buildings generally used for storage north of the main building. Currently, City Hall is undersized for existing operations including work stations, office space, storage, and meetings. This is particularly true for the Police Department.

A new City Hall and Police Department facility has the opportunity to showcase the vitality and unique spirit of the Carlton community as well as extend the downtown area east along Main Street. The intention is to build a facility that will serve the City of Carlton for the next 100 years.

#### **Committee Purpose**

An Ad Hoc (temporary) Citizen Advisory Committee appointed by the Mayor and City Council to participate with project design and funding of a new City Hall facility.

#### **Committee Objectives**

1. Identify and discuss Committee tasks.
2. Review and discuss City Council goal.
3. Participate in design workshops with project architect.
4. Review and discuss current and projected resources.
5. Prepare and present recommendations for City Council.

#### **Committee Meeting Ground Rules**

1. Meeting schedule and frequency will be at the Committee's discretion.
2. Meetings will generally be limited to 1-2 hours.
3. Attendance at meetings is necessary to fulfill the commitment. If unable to attend, it is the member's responsibility to see what has been missed.
4. Participate at all meetings.
5. Behave courteously to fellow Committee members.

#### **Committee Make-Up**

This is a group of community members that have an interest in the City Hall project's success or have particular experience beneficial to the Committee. This is an "ad hoc" Committee and terms are limited to the duration of the project.