



**Request for City Council Committee Action
From the Finance & Property Services Department**

Date: July 30, 2012
To: Council Member Betsy Hodges, Chair Ways and Means/Budget
Committee

Referral to:

Subject: Refunding of Heritage Park General Obligation TIF Bonds

Recommendation:

City Council adopt a resolution authorizing the Finance Officer to issue and award General Obligation Tax Increment Refunding Bonds in compliance with applicable Minnesota Statutes.

Previous Directives

None

Prepared/Submitted by Michael Abeln, Director, Capital & Debt Management, 673-3496

Approved by: Kevin Carpenter, City Finance Officer _____

Paul Aasen, City Coordinator _____

Presenters in Committee: Michael Abeln, Director, Capital & Debt Management

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
- Other financial impact (Explain): Refunding bonds for future interest savings
- Request provided to the Budget Office when provided to the Committee Coordinator

Background/Supporting Information

In 2003, the City issued \$6,900,000 in general obligation (G.O.) TIF bonds for the Heritage Park project. Bond proceeds were used to pay for a portion of the public infrastructure costs of the development. Debt service on the bonds was to be 100% paid with tax increment generated by the Heritage Park TIF District (#114). In the early years of this TIF district, development occurred roughly as projected, and the tax increment generated was sufficient to pay the annual debt service and generate a small cash surplus in the Heritage Park TIF fund (Fund 01CHP). However, in more recent

years the planned development was only partially realized, existing property values have fallen, and the cash surplus in Fund 01CHP has been needed to help pay debt service on the G.O. TIF bonds.

The cash balance in Fund 01CHP has now been depleted and it is projected that annual debt service will exceed tax increment collections by at least \$200,000 per year into the foreseeable future. The City's Debt Management Committee has reviewed the situation and concludes that the most prudent approach to fix this problem is to use up to \$2.9M of funds on hand from the West Side Milling TIF District (#86) to pay off a portion of the Heritage Park bonds and refund the remaining outstanding bonds (approximately \$3.0M) this fall to take advantage of lower interest rates. An action requesting the necessary modifications to the appropriate TIF Plans has been provided to the Community Development Committee with a referral to the Ways and Means/Budget Committee to approve this approach.

The Finance & Property Services Department recommends the City Council adopt the attached resolution authorizing the Finance Officer to take the steps necessary to issue and award General Obligation TIF Refunding Bonds (Heritage Park) to reduce debt service costs and provide a viable financial solution for the revenue shortfall problem for the original Heritage Park TIF bonds.

The Finance Officer will report the bond sale results to the Ways & Means/Budget Committee after the completion of the refunding.