THE CITY OF
NORTHFIELD
ESTD MINNESOTA 1855

MEMORANDUM

DATE: May 6, 2025

To: Honorable Mayor & City Council

CC: Dave Bennett, Director of Public Works/City Engineer; Jeff Schroepfer, Police Chief; Jake Reilly, Community Development Director; Lynette Peterson, City Clerk; Michelle Mahowald, Communications & Human Resources Director; Natalie Draper, Director of Library; Brenda Angelstad, Finance Director; Chris Hood, City Attorney

From: Ben Martig, City Administrator

RE: "Supplemental Agenda Background Memo" for May 6, 2025 No. 3.

Summary Report:
The following is an update on agenda items as supplemental background agenda information made available for Tuesday May 6, 2025:

<u>20. 25-250 Consider Approval of Construction Manager Guaranteed Maximum Price Amendment after bid of New Ice Arena.</u>

There have been some questions related to the City Council's authority to approve this contract related to use of the lease revenue financing. In short, the Lease-Purchase Agreement scheduled for the EDA consideration in June (and prior intent to issue from a prior resolution and meetings discussed in February, March and April this year) will appoint the City as its agent to construct the Ice Arena. The City will have full authority under the Lease to supervise and control all aspects of the construction of the Ice Arena. See attached memos from Jenny Boulton, bond counsel with Kutak Rock, LLP of Minneapolis and also a memo from Nick Anhut, Financial Advisor with Ehlers and Associates.

There have also been some additional misconceptions made publicly that the project must require a public vote per City Charter. The following is some additional information related to the legal considerations of City Charter provisions and ability to utilize this debt financing mechanism that does not require a public vote as provided by the City legal bond counsel Jenny Boulton, transition partner of Kutak Rock LLP:

1. Charter:
The Charter allows the City to issue obligations without an election if permitted by state law. There are numerous exceptions to the election requirement throughout state law, not all of which are enumerated in MN Stat, Sec 475.58.

2. City Lease:
The City will not issue bonds or any other obligations under the proposed financing structure. Instead, the City will enter into a lease under which it will pay rent for the ice arena. The City is authorized by MN Stat, Sec 465.71 to acquire real and personal property under lease-purchase agreements and to enter into such an agreement with the EDA. MN Stat, Sec 465.71 permits entering into a lease with option to purchase without an election. The lease will allow the City to terminate the lease in any year if the City were to decide not to appropriate funds for rent payments in the annual budget. Because of the right to non-appropriate in any year, the lease is not an "obligation" as defined in MN Stat, Sec 475.51, subd. 3. Because the lease and rent payments aren't an "obligation", the election requirement under MN Stat, Sec 475.58, subd. 1 doesn't apply and the exceptions thereto aren't relevant.

3. EDA Lease Revenue Bonds
It is proposed that the EDA issue lease revenue bonds under MN Stat, Sec 469.103 which does not impose an election requirement. The bonds will be revenue obligations payable solely from the rent payments under the lease (including funds coming from donors and funding partners like the School District and the City of Dundas). The bonds will not be general obligations of the EDA or the City. MN Stat, Chapter 475 doesn't apply to the EDA's revenue bonds because (a) Chapter 475 applies to obligations issued by a "municipality" as defined in MN Stat, Sec 475.51, subd. 2, which does not include economic development authorities, and (b) MN Stat, Chapter 475 is not incorporated by reference into MN Stat, Sec 469.103. However, even if we were to apply MN Stat Chapter 475 to the EDA's lease revenue bonds, the bonds would not be subject to an election requirement under MN Stat, Sec 475.58 pursuant to the exception MN Stat, Sec 475.58, subd. 1(4) for obligations payable wholly from the income of revenue producing conveniences which, in this case, includes the revenues derived under the lease.

While issuing general obligation bonds pursuant to an election is one option available to finance the proposed ice arena, that is not the only option available.

General obligation tax abatement bonds are an alternative available to the City and may be issued without an election as are the EDA lease revenue bond described here. For the reasons described above, EDA lease revenue bonds do not require an election.

Ms. Boulton can answer any legal questions at the meeting and Mr. Anhut is available for any of the financing questions.

Lastly, there have been some questions related to the operating expenses of the new arena. The current arena is within the City general fund. The following is a summary of the actual 2023 and 2024 (unaudited) numbers:

Year	2023	2024 (unaudited)
Revenue	$217,499	$222,339
Expense	$316,555	$297,300
Net	($99,056)	($74,961)

Moving forward with the new arena, we should be very close to neutral operation. The City has a current operating budget for 2025 based on the current facility. The facility is currently in the general fund operation similar to the swimming pool that has operating revenues but some expected tax supported subsidy. This is in contrast to the City's only one enterprise fund, the liquor store, that generates full profit to cover operations and supplement revenue to the general fund. The other funds that fully cover expenses are the utility funds including the refuse fund, water fund, sewer fund and stormwater fund. Mr. Bennett can answer additional questions related to the ice arena budget should there be questions at the meeting.