

2024 City of Plymouth **DEBT STUDY**



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Executive Summary

Debt issuance is an important and flexible revenue source available to the city. Debt is a mechanism which allows capital improvements to proceed when needed, in advance of when it might otherwise be possible. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements to present and future constituencies.

Debt management is an integral part of the city's financial management strategy. Adequate resources must be provided for the repayment of debt, and the level of debt incurred by the city must be effectively controlled to amounts that are manageable and within levels that will maintain or enhance the city's credit rating. One of the city's primary goals in debt management is to stabilize the overall debt burden and future tax levy requirements to ensure that issued debt can be repaid. A debt level which is too high places a financial burden on taxpayers and can create stress for the community's economy.

The city's debt study is updated periodically (last updated 2018). All outstanding bonds have been reviewed to ensure the following:

1. Projected revenues are sufficient to pay annual principal and interest payments.
2. Opportunities are evaluated to pre-pay debt.
3. Impacts are evaluated on the overall tax levy.
4. Future debt management strategies and objectives are identified.

It is important to note that for all tax supported debt, state statutes require that the city levy 105% of the annual principal and interest due in the following year. This is to assure bondholders that there will be sufficient funds on hand to make all payments and to allow for delinquent or unpaid taxes. Since property tax collections in the City of Plymouth are very high (five-year average of 99.9%), this may result in the generation of excess cash balances within the debt fund based on the 105% statutory requirement. These reserves allow the city flexibility to lower future debt levies by utilizing the available funds to reduce large cash balances remaining after final bond payments. The reserves can also be used to pay off debt issues early.

The Debt Study should not be treated as an isolated undertaking, but rather part of the overall financial management strategy. By using this study as a tool in conjunction with the annual budget, capital improvement program, and 10-year financial plan, financial decisions can be made on how future improvements will be financed - with cash, debt or a combination. Each decision will have an impact on the current and future budget and levies.

Before future financing needs are addressed, it is critical to review existing debt. This study summarizes all outstanding debt of the city and HRA and provides cash flow projections for each debt issue.

- As recommended in previous debt studies, the 2012A Public Safety Building bonds were paid off early in 2022 with reserve funds set aside from the city's surplus. The early payoff eliminated the debt levies for the bond issue in years 2022 through 2024 and saved interest of \$94,000.
- In addition, surplus funds were used for early retirement of the 2015A Northwest Greenway bonds. Defeasance occurs when funds are set aside that are sufficient to meet the debt obligations of the bond to pre-pay the debt. This action allows for reduced interest charges and eliminates the need to

levy on an annual basis. The defeasance of the 2015A bonds eliminated the debt levy amounts that were scheduled for years 2024 to 2026. For 2024, the debt levy savings was \$291,252. By paying off the debt early, this provided future interest savings of \$92,157 over the term of the bond. Eliminating the debt levy also reduced the overall property tax levy for 2025 and 2026.

- Staff continues to monitor all outstanding bond issues for opportunities to refinance or pay off early. Since the city only has two outstanding bond issues, the 2020A PCC Bonds and the 2021A Fire Station Bonds, and both issues obtained 20-year bonds at 1.7 percent interest, there will not be opportunities in the near term to restructure or pay off early.
- In 2021, the HRA refunded (refinanced) the Vicksburg Crossing Housing Revenue Bonds (2012A) to realize interest rates savings of 61,500 per year from 2023 to 2035, for total interest savings of \$800,606.

Staff will continue to monitor levy capacity as a result of bond maturities and/or early payoff of debt that could be utilized to finance future project costs.

DEBT POLICY

The City of Plymouth has adopted the following financial management policies relating to debt issuance (last updated February 2024):

- A. The city will confine long-term borrowing to capital improvements or projects which cannot be financed from current revenues. In addition, the city will not incur debt to support current operations.
- B. When the city finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the project.
- C. In all bond issues, at least 50% of the principal shall be retired within 10 years.
- D. The city will attempt to keep the maturity of general obligation bonds and general obligation guaranteed bonds at or below 20 years.
- E. Total general obligation debt will not exceed two percent of the market valuation of taxable property.
- F. Where possible, the city will use special assessment, revenue or other self-supporting bonds instead of general obligation Ad Valorem bonds.
- G. The city will maintain open communications with bond rating agencies regarding its financial condition. The City will follow a policy of full disclosure in every financial report and bond prospectus.
- H. The city will develop a set of written policies concerning the use of Tax Increment Financing (TIF) as a development incentive.

Summary of Debt

As of December 31, 2023, the city of Plymouth had \$63.5 million in outstanding debt. The debt falls into two basic categories:

- General Obligation Tax Supported Bonds - \$57 million
- General Obligation Housing Revenue Bonds - \$6.5 million

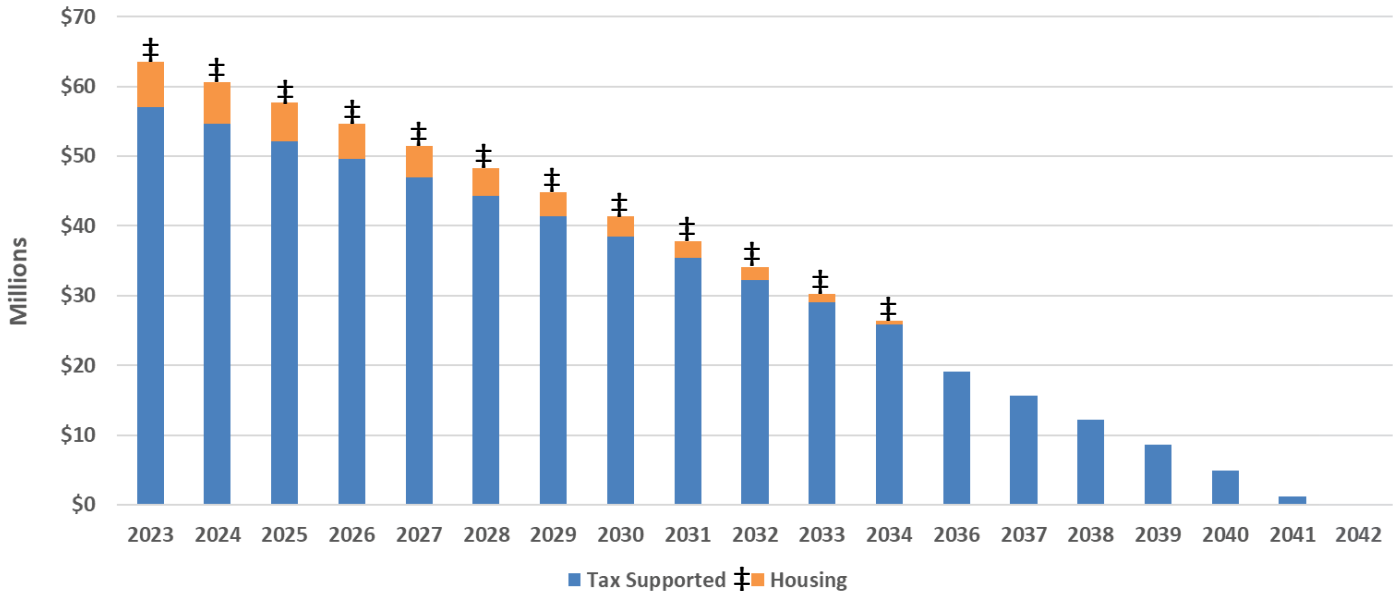
All outstanding debt is General Obligation (GO) debt. General obligation bonds are backed by the full faith and credit of the City of Plymouth. When issuing general obligation debt, it is important to understand that if revenues are insufficient to meet principal and interest payments, the city is required to levy taxes without limitation on rate or amount on all taxable property in the city to make up the deficiency. The general obligation pledge is additional security for the bondholders and allows interest rates to be priced at lower rates.

BONDS OUTSTANDING AT 12/31/2023

BOND ISSUE	PRINCIPAL BALANCE	INTEREST RATE	CALL DATE	MATURITY DATE
Tax Abatement Bonds, Series 2020A - Plymouth Community Center	37,070,000	2.00-4.00%	2/1/2029	2/1/2041
CIP Bonds, Series 2021A - Fire Stations	19,915,000	1.625-4.00%	2/1/2030	2/1/2042
General Obligation Tax Supported Bonds	56,985,000			
General Obligation Tax Increment Bonds	-			
Governmental Housing Project Refunding Bonds 2021A (refunded 2012) - Vicksburg Crossing	6,500,000	1.00-3.00%	2/1/2029	2/1/2035
General Obligation Housing Bonds	6,500,000			
Total Bonds Outstanding	63,485,000			

Historically, Plymouth has issued very little debt. With the recent issuance of the Plymouth Community Center (PCC) and fire station debt, the outstanding debt is much larger than what we have had recently but the number of individual bond issues has been reduced from seven in 2017 to three currently.

Total Outstanding Debt



STATUTORY DEBT LIMIT

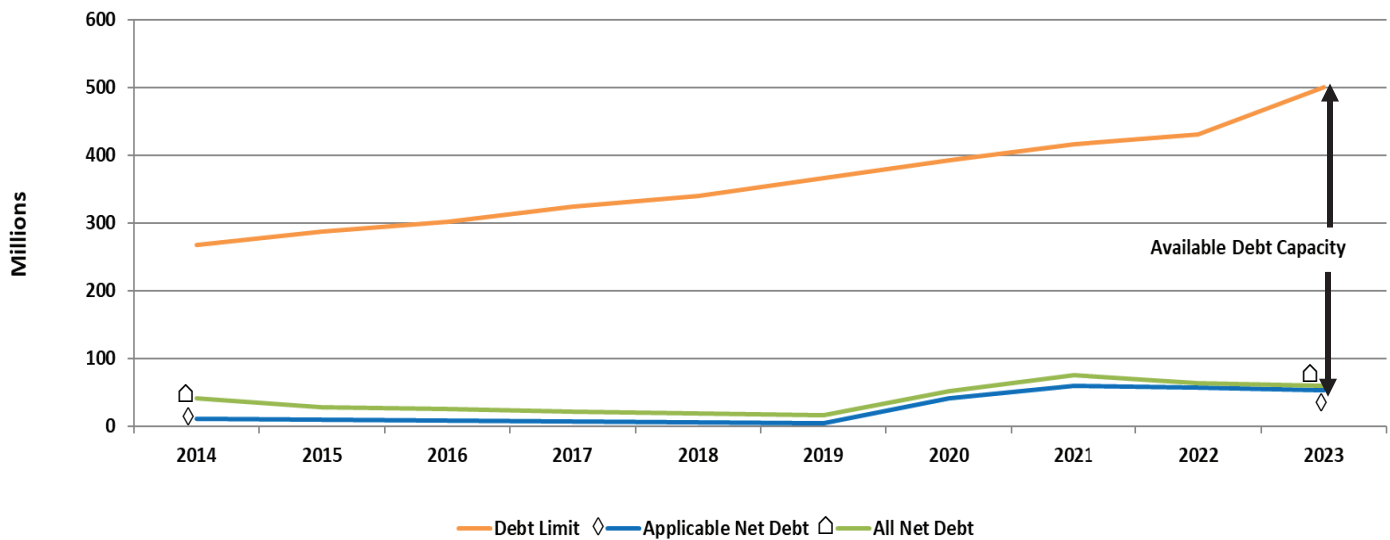
Minnesota statutes contain a limit on net debt that Minnesota municipalities can issue (Minnesota Statutes, Section 475.53, subd. 1) to three percent of the estimated market value of all taxable property within its boundaries. “Net debt” (Minnesota Statutes, Section 475.51, subd. 4) is the amount remaining after deducting funds set aside for the debt service (i.e., fund balance) from gross debt as well as the following:

- (1) Obligations payable wholly or partly from special assessments levied against benefitted property
- (2) Warrants or orders having no definite or fixed maturity
- (3) Obligations issued to finance any public revenue producing conveniences
- (4) Obligations issued to create or maintain a permanent improvement revolving fund
- (5) Obligations for acquisition, and betterment of public waterworks systems or any other public convenience from which a revenue is or may be derived
- (6) Debt service loans and capital loans made to a school district
- (7) Amount of money held as a debt service fund for the extinguishment of obligations
- (8) Obligations to repay loans (216C.37)
- (9) Obligations to repay loans made from money received from litigation or settlement of alleged violations of federal petroleum pricing regulations
- (10) Obligations issued to pay pension fund or other postemployment benefit liabilities (475.52, subd. 6)
- (11) Obligations issued to pay judgements against the municipality
- (12) Other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance.

Following is the city's debt limit calculation for December 31, 2023:

Market value	\$ 16,664,562,000
Debt limit (3% of market value)	499,936,860
Debt applicable to the limit	56,985,000
Less amount set aside for related debt service	(3,964,000)
Total net debt applicable to limit	53,021,000
Legal debt margin	\$ 446,915,860

**Statutory Debt Limit
Versus Actual Debt**



- **Applicable Net Debt** represents general obligation debt of the city (i.e., excludes HRA) less funds available for principal payment.
- **All Net Debt** includes all debt (general obligation of the city, HRA, tax increment and enterprise revenue) less funds available for principal payment. The calculation per statute does not require inclusion of all debt but it is included here to illustrate the minimal impact.

As illustrated above, the city falls well within the statutory debt limits and has plenty of capacity to issue debt for future projects, if needed. However, amount of debt does factor into rating agencies bond rating for the city (i.e., may not continue as Aaa/AAA).

BOND RATINGS

Although current interest rates have increased substantially in the last few years, there are many variables that affect future market interest rates.

The city of Plymouth currently maintains the highest credit rating possible from both Moody’s “Aaa” and Standard & Poor’s “AAA”. The ratings allow the city to issue debt at the lowest possible cost due to its strong creditworthiness. The ratings are used by investors to judge an issuer’s credit worthiness. The higher the credit rating, the less risk to investors and the lower the interest rate.

In 2022, Moody’s stated that “the city’s Aaa rating reflects exceptional credit quality and will continue to benefit from its location in the Twin Cities metro. The city has a large and growing tax base, healthy resident wealth metrics and very strong resident income levels. Reserves will remain at solid levels because of the city’s track record of conservative budgeting and history of adding to reserves. Debt and pension burdens are low compared to the tax base.”

In 2022, Standard and Poors stated that “The city’s economy is very strong. The city has the fifth-largest tax base in the state and benefits from a rich residential base and diverse employment base, which is a credit strength. Our assessment of its financial management practices is strong, reflecting consistent and conservative budgetary practices. The 'AAA' long-term rating reflects the following factors:

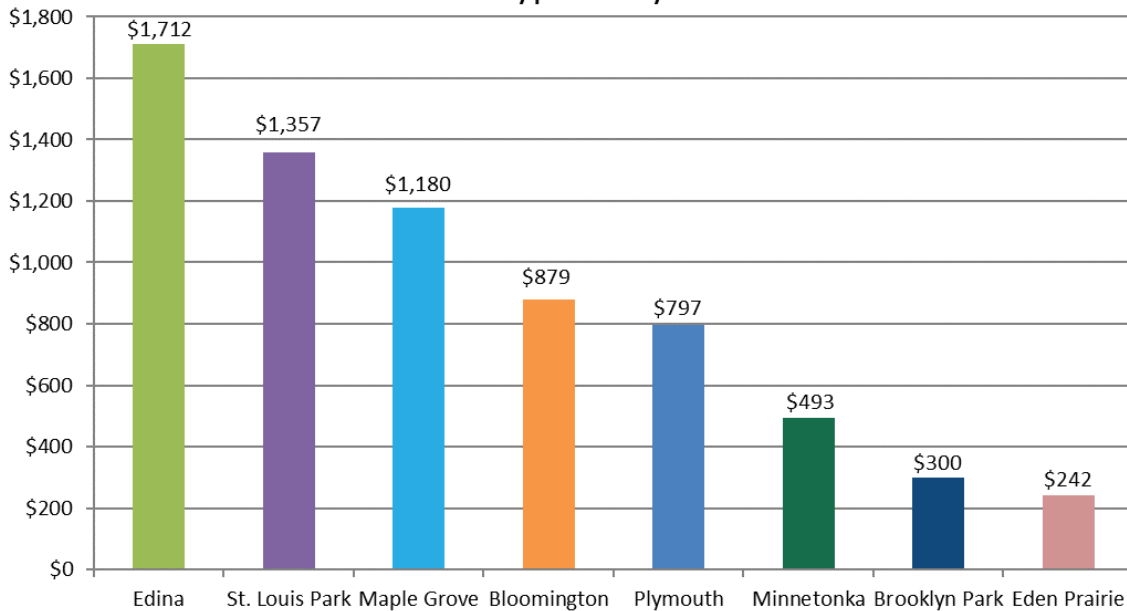
- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA).
- Very strong management, with strong financial policies and practices under our financial management assessment methodology.
- Very strong budgetary flexibility and strong budgetary performance; and
- Strong debt and contingent liability position, with overall net debt at less than 3.0% of market value.”

As the table below illustrates, the agency ratings have a significant impact on the cost incurred for debt issuance. In the example of a general obligation bond issued in the amount of \$20 million with a term of 20 years, the city would be saving approximately \$252,283 over a municipality with an AA/AA2 rating and \$507,510 over a municipality with a A+/A1 rating.

General Obligation Bonds - \$20M			
	Rating Agency Classification		
Rating:	<u>AAA/Aaa</u>	<u>AA/Aa2</u>	<u>A+/A1</u>
Interest Rate:	2.35% - 3.85%	2.45% - 3.95%	2.55% -4.05%
Interest Cost:	\$7,127,895	\$7,380,178	\$7,635,405
Difference from AAA		\$252,283	\$507,510

According to Ehlers, the City’s financial advisor, in 2023 the City of Plymouth had direct net debt per capita of \$797. Direct net debt includes city debt only. In addition, Plymouth debt service payments are 9.2% percent of its annual operating budget. In comparing to similar communities, Plymouth is the fourth lowest of the eight communities in direct net debt per capita and debt service as a percent of operating expenses. Plymouth is lower than the peer group average in both categories.

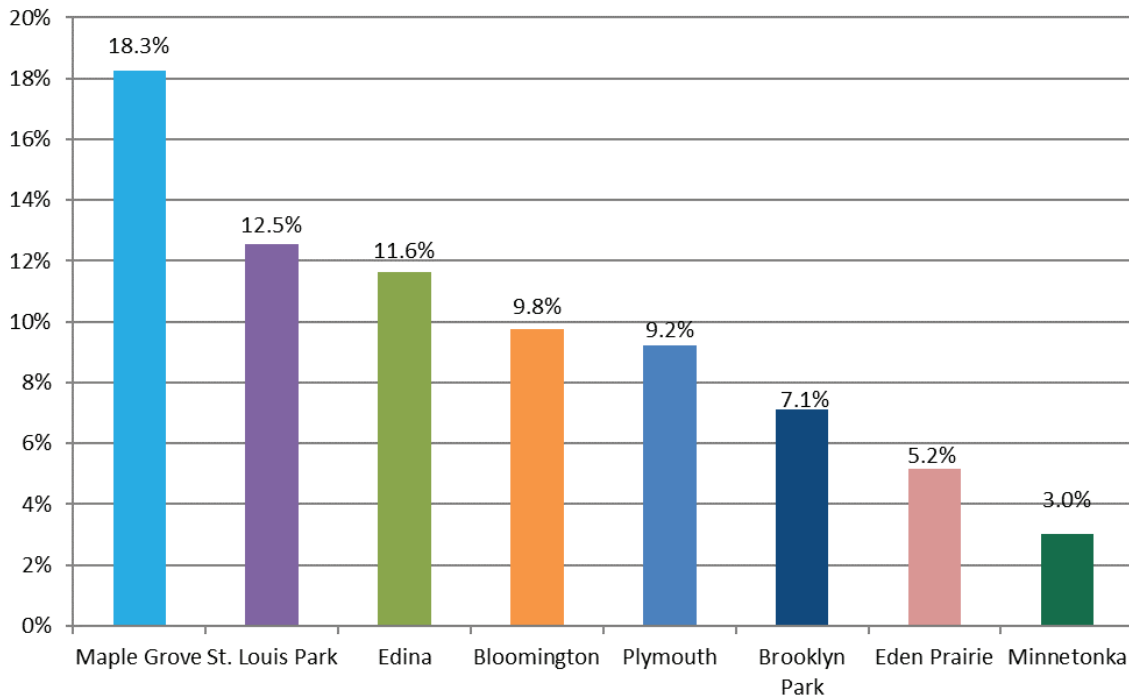
Direct Net Debt Per Capita
City portion only



Source: Metropolitan Council (2023), City Financial Reports (2023)

Average = \$870

Debt Service as % of Operating Expenses
City portion only



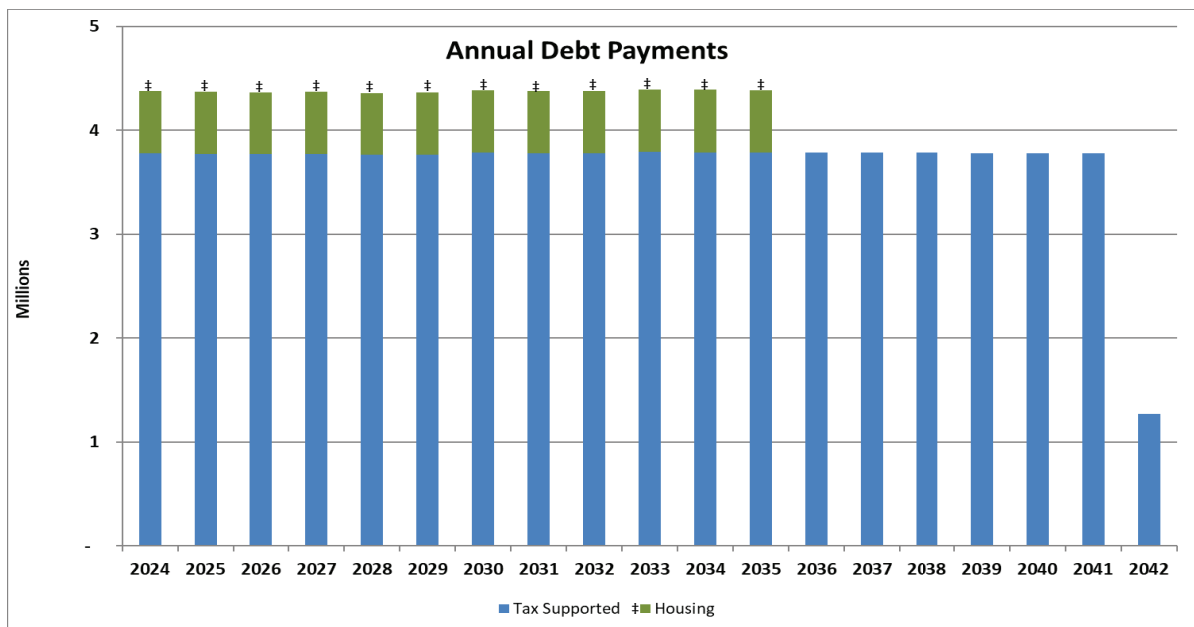
Source: City Financial Reports (2023)

Average = 9.6%

TOTAL ANNUAL DEBT PAYMENTS

The table below outlines the total annual debt payments (including principal and interest), by category, for all debt through 2042.

Payment Year	Tax Supported			Housing		Total
	PCC 2020A	Fire Stations 2021A	Total Tax Supported Debt	Vicksburg Crossing Housing Bonds 2021A	Total Housing Debt	Total Debt Payments
2024	2,505,200	1,276,275	3,781,475	597,440	597,440	4,378,915
2025	2,502,000	1,271,225	3,773,225	598,115	598,115	4,371,340
2026	2,501,300	1,270,500	3,771,800	593,415	593,415	4,365,215
2027	2,502,900	1,269,025	3,771,925	598,265	598,265	4,370,190
2028	2,501,700	1,266,800	3,768,500	592,665	592,665	4,361,165
2029	2,497,700	1,268,750	3,766,450	596,615	596,615	4,363,065
2030	2,495,800	1,289,500	3,785,300	600,640	600,640	4,385,940
2031	2,516,200	1,264,425	3,780,625	599,733	599,733	4,380,358
2032	2,515,000	1,263,825	3,778,825	603,175	603,175	4,382,000
2033	2,517,950	1,274,606	3,792,556	600,955	600,955	4,393,511
2034	2,515,050	1,271,419	3,786,469	603,055	603,055	4,389,524
2035	2,516,300	1,272,256	3,788,556	599,463	599,463	4,388,019
2036	2,511,700	1,272,744	3,784,444	-	-	3,784,444
2037	2,516,200	1,272,881	3,789,081	-	-	3,789,081
2038	2,514,750	1,271,941	3,786,691	-	-	3,786,691
2039	2,512,400	1,269,909	3,782,309	-	-	3,782,309
2040	2,514,100	1,266,750	3,780,850	-	-	3,780,850
2041	2,509,850	1,267,400	3,777,250	-	-	3,777,250
2042	-	1,267,550	1,267,550	-	-	1,267,550
2042	-	-	-	-	-	-



Annual Levy

GENERAL OBLIGATION TAX SUPPORTED DEBT

Tax supported debt is defined as debt that is repaid all or a portion from an annual property tax levy. Most cities place a high priority on tax supported debt due to its direct impact on current and future property tax levies. Without properly monitoring tax supported debt, a city may never know when it has opportunities to refund for interest cost savings, restructure debt or reduce or eliminate annual debt levies.

Below is a breakdown of the City of Plymouth’s property tax levy. The highlighted section indicates the portion of the property tax levy related to debt.



CITY OF PLYMOUTH PROPERTY TAX LEVIES

Levy Type	2023	2024	2025 Concept Levy	2025 Proposed Levy	% Change 2024	% Change 2024
					to Concept	to Proposed
					2025	2025
Levy Base						
General Fund Base	37,922,777	40,878,873	43,814,363	43,349,363	7.2%	6.0%
Street Reconstruction	2,852,950	2,938,539	3,026,695	3,026,695	3.0%	3.0%
Recreation Fund	944,640	972,979	1,002,168	1,002,168	3.0%	3.0%
Park Replacement	981,195	1,010,631	1,040,950	1,040,950	3.0%	3.0%
Capital Improvement Fund	<u>496,142</u>	<u>511,026</u>	<u>526,357</u>	<u>526,357</u>	<u>3.0%</u>	<u>3.0%</u>
Total Levy Base	43,197,704	46,312,048	49,410,533	48,945,533	6.7%	5.7%
Special Levies						
2015A Open Space (paid off early)	268,767	-	-	-	-	-
2020A Plymouth Community Center	2,267,392	2,360,910	2,361,540	2,361,540	0.0%	0.0%
2021A Fire Stations	<u>787,241</u>	<u>1,348,095</u>	<u>1,347,728</u>	<u>1,347,728</u>	<u>0.0%</u>	<u>0.0%</u>
Total Special Levies	<u>3,323,400</u>	<u>3,709,005</u>	<u>3,709,268</u>	<u>3,709,268</u>	<u>0.0%</u>	<u>0.0%</u>
TOTAL CITY LEVY	46,521,104	50,021,053	53,119,801	52,654,801	6.2%	5.3%
HRA Levy	<u>639,634</u>	<u>658,823</u>	<u>678,588</u>	<u>678,588</u>	<u>3.0%</u>	<u>3.0%</u>
TOTAL LEVY	\$47,160,738	\$50,679,876	\$53,798,389	\$53,333,389	6.2%	5.2%
Total City Tax Rate (not including HRA)	24.3%	24.5%	24.4%	24.2%		

The debt levies comprise 7% of the total proposed 2025 property tax levy which is consistent with the prior two years (7.3% in 2024 and 7% in 2023).

As mentioned in the executive summary, surplus funds were used for early retirement of the 2015A Northwest Greenway bonds. Defeasance occurs when funds are set aside that are sufficient to meet the debt obligations of the bond to pre-pay the debt. This action allows for reduced interest charges and eliminates the need to levy on an annual basis. The defeasance of the 2015A bonds eliminated the debt levy amounts that were scheduled for years 2024 to 2027. For 2024, the debt levy savings was \$291,252. By paying off

the debt early, this provided future interest savings of approximately \$92,157 over the term of the bond. Eliminating the debt levy also reduced the overall property tax levy for 2024 through 2027.

FUTURE DEBT

With the recent completion of the Plymouth Community Center and Fire Stations 2 and 3, the city's immediate facilities needs have been addressed. However, there may be debt issuance necessary for future projects. The current capital improvement plan for the facilities internal service funds excludes facility replacement assuming that bonds would be issued.

The city may consider issuing bonds to reimburse the Street Reconstruction Fund for the Chankahda Trail Project. The bonds, if issued, would be paid back with annual tax increment collected from The Boulevard project (Prudential site). Under this scenario, there would be no property tax levy required.

In conjunction with Plymouth City Center, there is the potential of issuing debt in the next few years for several projects including the Plymouth Ice Center Expansion and the City Center Public Parking Ramp. These projects, and others, are likely contingent on the city exploring and approving a local sales tax as a funding source. The earliest a local sales tax could be approved via referendum, would be the fall of 2026.

Should the city approve a future local option sales tax to pay for the projects above, debt will be required but the source of repayment will come from local sales tax instead of local property tax.

If the city receives state bonding money for future projects, it will reduce the need for issuing debt.

The city is in excellent financial position with plenty of debt capacity meaning there may be other projects that come up where debt issuance may be recommended.

ANNUAL LEVY AMOUNTS

	PCC G.O. Tax Abatement	Fire Stations G.O. CIP	Total Tax Supported Debt
Collect Year	2020A	2021A	
2024	2,360,910	1,348,095	3,709,005
2025	2,361,540	1,347,728	3,709,268
2026	2,364,690	1,346,573	3,711,263
2027	2,364,900	1,344,630	3,709,530
2028	2,362,170	1,347,150	3,709,320
2029	2,361,750	1,369,725	3,731,475
2030	2,363,430	1,343,475	3,706,905
2031	2,362,590	1,343,318	3,705,908
2032	2,366,160	1,347,465	3,713,625
2033	2,363,535	1,344,958	3,708,493
2034	2,365,320	1,346,021	3,711,341
2035	2,360,910	1,346,717	3,707,627
2036	2,366,160	1,347,045	3,713,205
2037	2,365,110	1,347,006	3,712,116
2038	2,363,115	1,345,070	3,708,185
2039	2,365,425	1,342,740	3,708,165
2040	2,361,435	1,343,685	3,705,120
2041	-	1,344,105	1,344,105
2042			-

Based on financially prudent steps taken by past and present elected officials and staff, we have utilized cash reserves to fund most capital projects (e.g., utility infrastructure, street reconstruction, etc.), thereby reducing the need for future debt and reducing overall debt levels significantly over time. The city has utilized internal borrowing in the past and the current 2025-2034 CIP calls for an intrafund loan of \$13 million from the Utility Trunk Expansion fund to the Street Reconstruction fund with anticipated repayment from annual tax increment collected from The Boulevard project (Prudential site).

The below example uses the current intrafund loan (\$13 million with estimated repayment over 9 years) to showcase the difference between internal borrowing and debt issuance in the current interest rate environment:

- Internal borrowing
 - Assuming 4.5% interest rate (3% cost of borrowing plus 1.5%) yields interest of \$3.1 million in repayment. This is an estimated interest rate based on 3% assumed cost of borrowing plus 1.5% which is similar to how the interest rate is set for special assessments).
 - Taking the repayments (principal and interest) and investing yields compound interest of \$2.4 million over nine years.
 - Net \$5.5 million interest earnings.

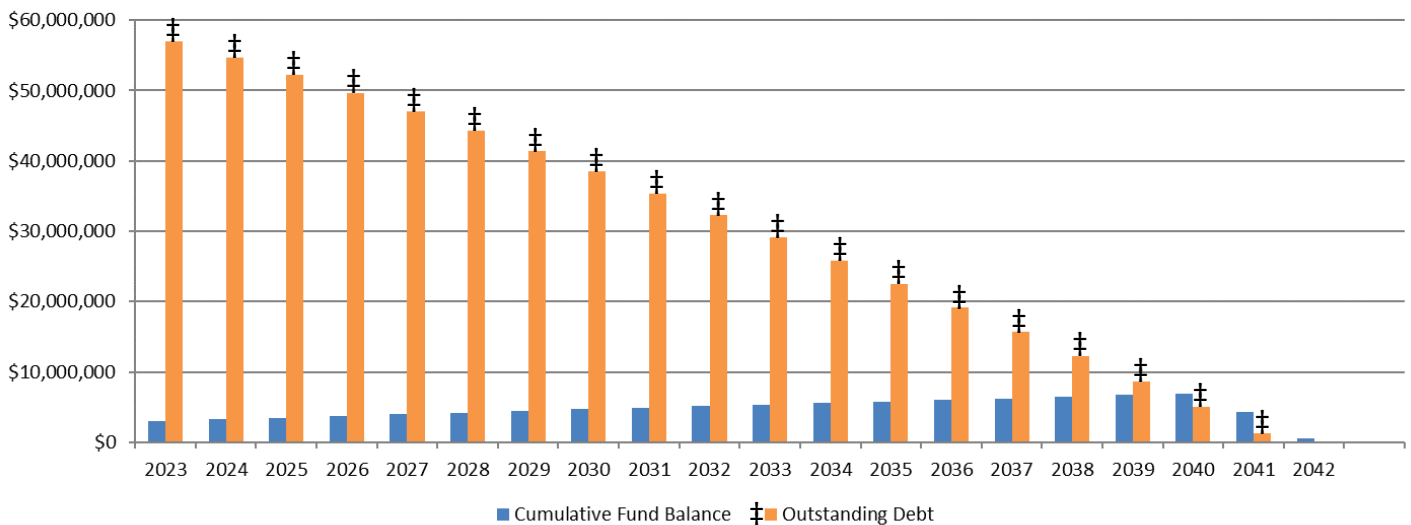
- Debt issuance
 - Maintaining \$13 million in reserves, earning 3.4% (current effective rate of return), yields \$4.5 million in compound interest over nine years.

- Debt issuance costs estimated at \$150,000.
- Debt interest paid, assuming 3% interest, is \$2 million.
- Assumes no investment earnings from bond proceeds.
- Net \$2.35 million in interest earnings.

As the interest rate environment changes, the benefits of internal borrowing vs debt issuance will be re-evaluated.

Tracking cash flow in all Tax Supported Bond Debt Service Funds is important to analyze the overall financial picture and to consider opportunities to pre-pay debt, adjust future tax levies, redirect remaining balances after debt is paid, or to incur additional debt obligations.

Cumulative Fund Balances and Outstanding Debt of Tax Supported Debt



Summary – Outstanding Bond Issues

GENERAL OBLIGATION TAX SUPPORTED BONDS

\$38,965,000 G.O. Tax Abatement Bonds (Plymouth Community Center), Series 2020A - Fund 316

On October 20, 2020, the city council approved the issuance of \$38,954,000 G.O. Tax Abatement Bonds, Series 2020A. The issue financed the renovation and expansion of the Plymouth Creek Center (renamed Plymouth Community Center). The bonds are scheduled to be paid from a combination of lodging tax revenues and dedicated property taxes through a tax abatement levy collected annually in fiscal years 2021

to 2040 with final payment due on 2/1/2041. Per existing state statute, the lodging taxes pledged to help payoff the debt will expire on September 30, 2030.

The 2020A bonds were issued at a 1.7% true interest cost and are callable on February 1, 2029 or any date thereafter.

\$21,500,000 G.O. Capital Improvement Plan Bonds (Fire Station 2 Replacement and Fire Station 3 Renovation), Series 2021A - Fund 317

On August 24, 2021, the city council approved the issuance of \$21,500,000 G.O. Capital Improvement Plan Bonds, Series 2021A. The proceeds financed the Replacement of Fire Station 2 and Renovation of Fire Station 3. The bonds will be paid with a property tax levy, collected annually, from 2023 to 2041, with final payment on 2/1/2042. The bonds were issued at a 1.7% true interest cost and are callable on February 1, 2030 or any date thereafter.

GENERAL OBLIGATION HOUSING BONDS

\$6,920,000 G.O. Governmental Housing Project Refunding Bonds, Series 2021A – Fund 851

The 2012A bonds were issued to provide for a refunding of the HRA’s Governmental Housing Project Bonds, Series 2005. The original bonds were issued for the acquisition, construction and equipping of Vicksburg Crossing, a 96-unit independent senior apartment building. The 2021A refunding saved \$800,606.

In addition to the city’s G.O. pledge, the intended sources of revenue to pay debt include the net revenues from the project and a portion of the HRA levy. If revenues are not sufficient, additional HRA funds or a tax levy would be needed. The bonds are callable on 2/1/2029 and final payment is scheduled for 2/1/2035.

RETIRED BOND ISSUES

**City of Plymouth
History of Retired Bond Issues**

Year	Bond Issue Name	Amount	Purpose	Paid Off	
2005A	G.O. Tax Increment Bonds	\$1,370,000	Shops at Plymouth Creek	2015	
2007A	G.O. Open Space Bonds	\$2,715,000	Northwest Greenway	2017	Early Payoff
2009A	G.O. Tax Increment Refunding Bonds	\$2,490,000	Village at Bassett Creek	2023	
2010A	G.O. Open Space Bonds	\$2,990,000	Northwest Greenway	2020	Early Payoff
2011A	G.O. Governmental Housing Project Refunding	\$3,165,000	Plymouth Towne Square Apts	2023	
2012A	G.O. Refunding Bonds	\$4,815,000	Public Safety Building	2022	Early Payoff
2012A	G.O. Refunding Bonds	\$4,955,000	Water Treatment Plants	2019	
2015A	G.O. Open Space Bonds	\$3,295,000	Northwest Greenway	2023	Early Payoff