Capital Improvement Bond Projects

Budget and Five-Year Plan 2027-2031
City of Duluth, Minnesota

Public Hearing – December 7, 2026

INTRODUCTION

Annually the City prepares a Capital Improvement Budget and Five-Year Plan. This plan is comprehensive and outlines capital improvements citywide, as well as identifies funding sources for all projects. One important funding source is general obligation bonds, allowable under Minnesota State Statutes, Section 475.521. Following the requirements in that law, the City may only fund certain types of improvements and must also follow a defined process including holding a public hearing to receive input from interested citizens.

This handout outlines the criteria established in state law, provides information on the city's debt and capital policies, and finally describes the proposed projects and estimated costs.

The proposed Capital Improvement Bond Projects 2027 Budget and Five-Year Plan is offered for public input at tonight's public hearing, as well as for Council review and approval.

CAPITAL IMPROVEMENT BOND PROJECTS REQUIREMENTS

The list of projects included in the Capital Improvement Bond Projects budget and Five-Year Plan meets the established requirements for issuing bonds under state law. Those requirements are summarized below.

Eligible Improvements - the City may only issue capital improvement bonds for certain types of improvements. They include the acquisition or betterment of public land, buildings, or other improvements for the purpose of a city hall, a public safety facility, a library, or a public works (maintenance operations) facility. The City may not issue capital improvement bonds for light rail transit; parks; roads, bridges, or administrative buildings other than city hall. The improvements must have an expected useful life of at least five years.

Debt Limit - the City may incur only a limited amount of capital improvement bond debt. Specifically, the City may not issue capital improvement bonds if the maximum amount of principal and interest, due in any year on all outstanding capital improvement bonds, including the bonds to be issued, would equal or exceed 0.16 percent of the estimated market value of the property in the City. Based on the Assessor's market value for taxes payable in 2027, the maximum would be $18.78 million.

Capital Improvement Plan - In order to issue capital improvement bonds for a specific improvement, the City Council must first adopt a capital improvement plan. The plan must cover a five-year period. It must contain the following information for each project included in the plan: the estimated schedule, timing and details of the improvement by year; the estimated cost; the need for the improvement; and the sources of revenue to pay for the improvement. The City Council must consider all of the criteria listed above in the

Introduction section of this document. The Council must hold a public hearing on the plan, and must, in resolution format, approve the plan and any amendments to the plan.

Issuing Capital Improvement Bonds - After the Council has adopted the capital improvement bond projects plan, the City may issue capital improvement bonds without the election requirements of Minnesota Statutes, Chapter 475. When issuing bonds, the City must publish a notice of intent to sell bonds, hold another public hearing, and adopt a resolution declaring the City's intent to issue. A referendum process may be authorized through the petition process. If no petition is filed, the City Council may approve the sale of the bonds.

PROPOSED PROJECTS FOR BOND FINANCING

Qualifying tax-levy supported projects totaling $13.44 million are identified in the five-year plan. For 2027, projects totaling $2.14 million are being proposed for general obligation bond financing. These funds provide for improvements to eligible facilities throughout the City, including but not limited to City Hall, Fire halls, Public Safety building, City Center West and libraries. The proposed term of the bond issue will be ten years, with an anticipated annual average debt service of $259,124. The specific projects follow this section.

OVERLAPPING DEBT

The City's proportionate shares of general obligation debt and general obligation revenue debt at December 31, 2025, of all governmental entities which provide services in the City's borders, and which must be borne by properties in the City are summarized below.

Unit	General Obligation Debt	Percent Chargeable to City	Amount Chargeable to City
Independent School Dist. 709	$107,161,131	88.86%	$95,221,942
Independent School Dist. 704	$17,420,000	7.61%	$1,326,310
St. Louis County	$180,035,000	38.35%	$69,034,498
			$165,582,750

CAPITAL BUDGET POLICY

The objective of the Capital Budget Policy is to ensure maintenance and replacement of public infrastructure and equipment in the most cost-efficient manner. The City will make all capital improvements in accordance with the adopted capital improvement and capital equipment budgets.

Capital Improvement Program - The City will develop a five-year Capital Improvement Program (CIP) with the annual operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts. All construction projects will include a contingency for unexpected costs.

Capital Equipment Program – The City will prepare a Capital Equipment Program budget each year. Capital equipment includes rolling stock, technology projects including software and hardware, and other equipment that has a life expectancy of five years or more.

Operating Budget Impact - The City will project its equipment replacement and maintenance needs on a multi-year basis and will update this projection each year. From this projection, a maintenance and replacement schedule will be developed and submitted for administrative review.

Operating expenditures/savings of each capital project request are included in the cost of implementing the project and reflect estimates of all personnel expenses and other operating costs attributable to the capital outlays. Departments receiving capital funds must account for the increased operating costs resulting from capital projects.

The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the City Council for approval. The City will determine the least costly financing method for all new projects.

Repair and Replacement - The City strives to maintain its physical assets at a level that protects the City's capital investments and minimizes future maintenance and replacement costs. Where possible, the capital budget shall provide for the maintenance, repair and replacement of capital plant and equipment from current revenues. The City will gather useful information pertaining to the condition of capital assets, use the data accumulated to identify capital and maintenance needs, and maintain current and accurate asset inventories.

Funding/Financing – The City will determine the least costly method of funding for all new City projects. The City will use inter-governmental assistance to finance only those capital improvements that are consistent with City priorities, and whose operating and maintenance costs have been included in operating budget forecasts.

Debt Management Policy

The objective of the Debt Management Policy is to provide a framework for managing the City's capital financing and economic development activities in a way that preserves the public trust and balances costs to current and future taxpayers without endangering essential City services.

Authority and Oversight - Management responsibility for the City's debt program is delegated to the Finance Director. The Debt Management Committee advises the Finance Director on the use

of debt financing and debt management activities. The Debt Management Committee meets periodically at the call of the Finance Director and includes the following persons:

- Finance Director
- City Auditor
- City Administrator
- Independent Financial Advisor as needed
- Independent Bond Counsel as needed

Method of Sale - The three primary methods of selling bonds include competitive sale, negotiated sale and private placement. The City uses the competitive sale method for general obligation bond sales unless factors such as structure, size or market conditions compel the use of a negotiated sale. The City may use the negotiated sale method on economic development related projects when the characteristics of the transaction require a more specific marketing plan and/or the issue lacks an investment grade rating due to complex security provisions or other factors.

Selection of Independent Advisors - The City uses competitive processes to select all service providers involved in the bond issuance process.

Short-term Debt - The City limits issuance of short-term debt for cash flow purposes, generally using cash reserves and investment practices to ensure that adequate liquidity exists to pay for expenditures during the year.

In addition, the following policy items apply:

- The City will retire any Tax/Aid Anticipation Certificates on Indebtedness within the year for which they were issued;
- The City will maintain a sound relationship with bond rating agencies, and will keep them informed about current financial conditions;
- The City will continue the practice of full disclosure, as it pertains to all financial reports and bond prospectus;
- The City will confine long-term borrowing to capital improvements, equipment or projects that are not appropriately financed from current revenues; and
- The City will strive to achieve and maintain an AA rating from Standard and Poor's.

Bond Specifics:

General Obligation Bonds, Property Tax Supported - General obligation property tax supported bonds finance only those capital improvements and long-term assets that have been determined to be essential to the maintenance or development of the City.

General Obligation Revenue Bonds - The City issues general obligation revenue bonds to finance assets associated with its primary enterprise businesses including storm water and sanitary

sewers, water and gas utilities, golf, and parking ramps. Financial feasibility of capital projects is reviewed each year, including a review of the cash basis pro formas for these funds. Five- year business plans detailing projected operating costs and prior debt obligations are reviewed as well as revenue performance and rate setting analysis to ensure that adequate bond coverage ratios are achieved.

Tax Increment Bonds - The City uses tax increment bonds only where projects can be shown to be self-liquidating from tax increments arising in sufficient amounts, or where secured guarantees are provided for potential shortfalls, and with appropriate timing to avoid, to the maximum extent possible, the use of citywide property tax revenues and where maximum allowable guarantees are obtained.

The City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, subject to the terms and conditions of a development agreement with the City.

Alternatives, such as "pay as you go" financing and reimbursing front-end public redevelopment costs with tax increment revenues, or with tax abatement are preferable to bond financing and are to be considered and used when appropriate.

Conduit Debt Obligations - These obligations include industrial revenue bonds for which the City incurs no financial or moral obligation and are issued only if the associated development project can be shown to be financially feasible and will contribute substantially to the welfare and/or economic development of the City and its inhabitants.

Bond Term - The City shall issue bonds with terms no longer than the economic useful life of the project, and endeavor to keep the maturity at or below 20 years. For self-supporting bonds, maturities and associated debt service shall not exceed projected revenue streams.

Feasibility - The City shall obtain secured guarantees for self-supporting and tax increment supported bonds to the extent possible. The City shall also obtain assurances of project viability and guarantees of completion prior to the issuance of bonds.

City of Duluth 2027 - 2031 Capital Improvement Plan

Capital Improvement Program Summary

Operating Cost Implications of Proposed Projects:

These are the public facing facilities that are owned and operated by the City. Much of the activity in these facilities support the operation of City business by housing staff and serving as points of direct engagement with the public seeking City services such as Construction Services, Planning, Engineering, City Clerk, Elections, Public Library, City Council, Public Commissions and the like. These investments constitute renewal and improvement of core facility infrastructure systems such as lighting, HVAC, emergency systems, and building envelope improvements.

Projects	2027	2028	2029	2030	2031	Total
CIP Eligible VFA Building Improvements	1,086,000	1,400,000	1,150,000	950,000	1,850,000	6,436,000
Maintenance	250,000	450,000	400,000	300,000	400,000	1,800,000
Civic Buildings	700,000	250,000	750,000	-	-	1,700,000
Public Safety Buildings	100,000	500,000	600,000	1,650,000	650,000	3,500,000
Total	2,136,000	2,600,000	2,900,000	2,900,000	2,900,000	13,436,000

Funding	2027	2028	2029	2030	2031	Total
Capital Improvement Bond	2,136,000	2,600,000	2,900,000	2,900,000	2,900,000	13,436,000

City of Duluth 2027 - 2031 Capital Improvement Plan

CIP Eligible VFA Building Improvements

Description:

It is important to maintain a city-wide program of facility system replacements and accessibility compliance for structures. Many remote sites need masonry tuck pointing; this is our primary point of water migration into finished spaces. We have damaged window heads, sills, and parapets which also need repairs. Additionally, many remote sites are being heated with boilers or furnaces which are 20 years old and beyond. Replacing these with modern, high efficient units with electronic controls can realize significant annual energy savings over the continued life of the structure. All of these types of system replacements and facility upgrades are aimed at keeping these public buildings in the best state of repair and function possible with the funding available.

Project	2027	2028	2029	2030	2031	Total
CIP Eligible VFA Building Improvements	1,086,000	1,400,000	1,150,000	950,000	1,850,000	6,436,000

Funding	2027	2028	2029	2030	2031	Total
Capital Improvement Bond	1,086,000	1,400,000	1,150,000	950,000	1,850,000	6,436,000

City of Duluth 2027 - 2031 Capital Improvement Plan

Maintenance

Description:

As a group of CIP eligible facilities, the Maintenance buildings that support the activities of Property and Facilities Management and Maintenance Operations, represent some of the most rapidly deteriorating CIP eligible facilities that the City currently owns. Each of these facilities have significant capital needs that are extremely critical to maintain facility integrity and to continue operations as viable assets housing core City services. The group of maintenance facilities represents many challenges and opportunities. As part of a longer term strategy for this element of the portfolio, the reality that most of these facilities have capital improvement needs in excess of 50% of their replacement value has driven Property and Facilities Management to consider investments that are primarily aimed at maintaining the facility integrity and ensuring the safety and comfort of City staff working out of these facilities while not significantly improving the assets. As assets, this group of buildings have significant value for potential resale, as most are located on prime real estate, and should a longer term solution aimed at a total consolidation of maintenance activities into one newly constructed facility come to fruition, the focus of this part of the capital plan is on – primarily – maintaining the status quo in a manner that sufficiently meets the operational needs and protects the assets from significant deterioration over the next 5 years.

Project	2027	2028	2029	2030	2031	Total
PFM HVAC	250,000	-	-	-	-	250,000
Rose Garden Maintenance Garage	-	200,000	-	-	-	200,000
PFM Roof	-	250,000	-	-	-	250,000
Misc. Maintenance	-	-	400,000	300,000	-	700,000
Tree Farm Yard/Cold Storage	-	-	-	-	400,000	400,000
Total	250,000	450,000	400,000	300,000	400,000	1,800,000

Funding	2027	2028	2029	2030	2031	Total
Capital Improvement Bond	250,000	450,000	400,000	300,000	400,000	1,800,000

City of Duluth 2027 - 2031 Capital Improvement Plan

Civic (City Center West/City Hall/Library)

Description:

These are the public facing facilities that are owned and operated by the City. Much of the activity in these facilities support the operation of City business by housing staff and serving as points of direct engagement with the public seeking City services such as Construction Services, Planning, Engineering, City Clerk, Elections, Public Library, City Council, Public Commissions and the like. These investments constitute renewal and improvement of core facility infrastructure systems such as lighting, HVAC, emergency systems, and building envelope improvements.

Project	2027	2028	2029	2030	2031	Total
City Hall Bathroom Remodels	250,000	250,000	250,000	-	-	750,000
Priley Circle Landscape & Architecture Restoration	300,000	-	-	-	-	300,000
City Hall Security Addition	150,000	-	-	-	-	150,000
CCW Driveway/Parking Lot	-	-	500,000	-	-	500,000
Total	700,000	250,000	750,000	-	-	1,700,000

Funding	2027	2028	2029	2030	2031	Total
Capital Improvement Bond	700,000	250,000	750,000	-	-	1,700,000

City of Duluth 2027 - 2031 Capital Improvement Plan

Public Safety Buildings

Description:

These are the public facing facilities that are owned and operated by the City. Much of the activity in these facilities support the operation of City business by housing staff and serving as points of direct engagement with the public seeking City services such as Construction Services, Planning, Engineering, City Clerk, Elections, Public Library, City Council, Public Commissions and the like. These investments constitute renewal and improvement of core facility infrastructure systems such as lighting, HVAC, emergency systems, and building envelope improvements.

Project	2027	2028	2029	2030	2031	Total
Fire Hall Miscellaneous	-	250,000	500,000	1,500,000	500,000	2,750,000
Public Safety Building Miscellaneous	100,000	250,000	100,000	150,000	150,000	750,000
Total	100,000	500,000	600,000	1,650,000	650,000	3,500,000

Funding	2027	2028	2029	2030	2031	Total
Capital Improvement Bond	100,000	500,000	600,000	1,650,000	650,000	3,500,000