

JOINT WORK SESSION  
CITY COUNCIL, FAIRMONT COMMUNITY CENTER FOUNDATION,  
FAIRMONT YOUTH HOCKEY ASSOCIATION,  
COMMUNITY CENTER ADVISORY BOARD  
May 10, 2023, 5:00 p.m.  
City Hall Council Chambers, 100 Downtown Plaza

AGENDA

1. Financing, Ownership & Maintenance Discussion

## MEMORANDUM

**TO:** City of Fairmont, Minnesota  
Cathy Reynolds, City Administrator  
Paul Hoye, Finance Director

**FROM:** Mary Ippel and Dan Burns

**DATE:** May 3, 2023

**RE:** **Fairmont Community Center (Phase I) – Business Deal**

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The City is proposing the construction of a community center with a current estimated cost of \$24,400,000. Special legislation in 2017 gave the City of Fairmont, Minnesota (the "City") the authority to levy a sales tax and issue up to \$15,000,000 of general obligation sales tax bonds (the "Bonds"), plus cost of issuance, to provide funding for recreational amenities, trails, and a community center. The City has already spent or committed \$2,085,260 of the bonding authority for the City's existing ice arena and for recreational amenities and trails unrelated to the community center. Therefore, the total City contribution to the community center is \$12,914,740 (the "Maximum City Contribution"). The City has already spent \$243,198.28 on the community center, leaving \$12,671,541.72 as the maximum remaining amount for the City to contribute to the community center (the "Remaining City Contribution"). The Remaining City Contribution will consist of a combination of sales tax revenue already collected and held by the City, and the proceeds of the Bonds (see Exhibit A for more specific information).

The City is also proposing to build a new ice arena and the current estimated cost is \$23,400,000. The City is seeking \$10,000,000 of assistance through the state bonding bill and an extra \$20,000,000 of sales tax authority to fund the ice arena costs.

Fairmont Area Community Center, Inc. ("FACC") proposes to finance the community center this year as a new market tax credit ("NMTC") financing. This memorandum provides a high-level summary of the proposed financing and ownership structure if done as a NMTC financing.

1. The land on which the community center and ice arena is to be built on is currently owned by Mayo Clinic. Federal law provides that NMTC proceeds can only be lent to partnerships and corporations (i.e. not the City), however, to support the public purpose of lending or granting sales tax proceeds and bond proceeds to FACC Holding Co. ("FACC Holding"), an affiliate of FACC, for the purpose of constructing the community center, Mayo Clinic would convey the land

to FACC Holding. FACC Holding would then subdivide the land into two parcels, one for the community center (the "First Parcel") and the other for the ice arena (the "Second Parcel"). FACC Holding would then lease the First Parcel to the City via a ground lease, and the City would then lease the community center to FACC Holding. The Second Parcel would be conveyed to the City for the future construction of the ice arena.

2. To finance the construction of the community center by FACC Holding, the City would grant the Remaining City Contribution less additional community center expenses incurred and paid by the City prior to the assignment of the contracts and the City's costs related to the NMTC structure to FACC Holding (the "Grant"). The NMTC will result in a net benefit to FACC of about \$5,000,000. FACC would provide the remaining funds needed from its capital campaign fundraising. It is important to note that the Bonds will need to be issued as taxable due to the laws governing NMTCs. Exhibit B shows the impact of the taxable bonds to the City compared to utilizing tax-exempt bonds.

3. The City would enter into one or more agreements with FACC that provides for certain terms and conditions of the Grant. Such terms and conditions would include, but not be limited to, the City having a right of first refusal to purchase the community center, and in the event of a sale of the community center by FACC to a third party, FACC would be required to pay the City a pro rata share of the sale proceeds.

4. The construction of the project would completely be the obligation of FACC Holding. The City would only be providing the proposed funding assistance described above. However, the City has already entered into an architect contract with JLG Architects and a construction manager contract for design with Kraus-Anderson. These contracts would need to be assigned to FACC Holding. All bidding and contracting by FACC would need to comply with all applicable state law requirements.

5. After construction, FACC Holding would be responsible for the maintenance and operation of the community center, and would be obligated to maintain it as a community center for so long as the Bonds are outstanding, and any additional amount of time required by the NMTC structure. It is contemplated that FACC Holding would sublease the community center to the YMCA to operate.

6. Given the amount of the investment from the City, the City will enter into an agreement with FACC and FACC Holding that provides certain guidelines for (i) the design and scale for the construction of the community center, and (ii) the programming to be administered by the YMCA. The City will also require representation on the YMCA board of directors.

Again, the above proposal is only for the construction of the community center. The construction of the ice arena is anticipated to be funded with state bonding money and additional sales tax authorization. Splitting up the two projects allows financing and construction of the community center to begin, while the ice arena awaits the passage of the special legislation for additional funds. FACC proposes to apply for a fall NMTC allocation for the community center financing. Therefore, it is necessary to determine the business deal between the City and FACC by early summer.

EXHIBIT A

<b>Sales Tax Authority</b>	<b>15,000,000.00</b>
Community Center Committee & YMCA	103,813.02
Amber Lake Boat Landing	150,000.00
Current Community Center Concept Design	139,385.26
<b>Total Expenses through April 30, 2023</b>	<b>393,198.28</b>
<b>Remaining Sales Tax Authority less Expenses</b>	<b>14,606,801.72</b>
Committed – Ice Mechanicals	1,430,000.00
Committed – Ice Design	505,260.00
<b>Total Committed through April 30, 2023</b>	<b>1,935,260.00</b>
<b>Net Sales Tax Authority Remaining Available to Project</b>	<b>12,671,541.72</b>
<b><u>Project Funding:</u></b>	
Revenues on Hand	4,749,639.00
Less Committed	1,935,260.00
Cash to Project	2,814,379.00
Plus: Bond Proceeds	9,857,162.72
<b>Net Cash to Project</b>	<b>12,671,541.72</b>
Total City contribution to Community Center*	\$12,914,740

\*includes expenses incurred through April 30, 2023

EXHIBIT B  
TAXABLE BONDS IMPACT

City of Fairmont, MN

General Obligation Sales Tax Revenue Bonds, Series 2024A  
Preliminary Debt Service Comparison - For Planning Purposes Only  
Bond Rates as of May 2, 2023

Bond Status	<u>Taxable</u>	<u>Tax Exempt</u>	Difference
Net Bond Proceeds to Project	9,857,162.00	9,857,162.00	
Costs of Issuance	232,838.00	232,838.00	
Par Amount of Bonds	10,090,000.00	10,090,000.00	
Average Debt Service	960,500.00	880,000.00	80,500.00
Interest Cost	4,317,682.50	3,091,175.00	1,226,507.50
Total Principal and Interest	14,407,682.50	13,181,175.00	1,226,507.50
Estimated Interest Rate	4.84%	3.56%	1.28%
Term	15 years	15 years	

Assumptions:

1. Estimated bond closing (proceeds available) - February 1, 2024
2. First interest due August 1, 2024 & semi-annually thereafter
3. Principal due annually February 1, 2025-2039
4. Estimated debt service information presented above based on current market rates as of May 2, 2023