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The City of Vadnais Heights
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Memorandum:

TO: Mayor Krachmer and City Council

FROM: Kevin Watson, City Administrator

DATE: February 17, 2026

SUBJECT: Fire Station Financials City Campus Direction

I believe it would be prudent to continue to affirm City council's feedback as it related to potential finances of the new fire station. The attached report is intended to frame the financial discussion surrounding the proposed new fire station project, with specific emphasis on the long-term financial impacts of value engineering and deferred investments. The financial report lays out several project scopes at \$23M, \$25M and \$28M. Additionally, it highlights the annual levy impact of \$200k, \$300k, and \$500k for each of those total costs as it relates to lifetime cost of the bonding measure.

Additionally, this discussion should include City Council's vision for the City Hall campus. I'd encourage the City Council to move forward with a "complete" project. Often times in these expensive projects, there's pressure to reduce costs. Unfortunately, the ways that capture significant dollars usually means you sacrifice significant function/form. It's my hope that when the Fire station project is complete, it blends seamlessly into the City Hall campus and is something the community can be proud of.

Project Financial Context

Following Council direction, staff, BKV and Terra Construction (Terra) are advancing planning for a new fire station constructed using precast materials. Conceptual cost estimates have been conservatively developed in response to ongoing volatility in the non-residential construction market. Construction costs in Minnesota have increased approximately 5% over the past year and nearly 50% since 2020. As the project progresses into design, we are asking Council to consider potential scope adjustments. While these measures can change upfront capital costs, it is important to evaluate their long-term financial consequences, including lifecycle costs, future capital expenditures, and retrofit inefficiencies.

Value Engineering: Financial Tradeoffs

Value engineering can be financially effective when it improves efficiency, durability, or constructability without shifting costs into the future. However, experience shows that deferring functional building components often results in higher total project costs over time, due to:

- Inflation and escalation when items are added later
- Premium costs associated with retrofitting occupied facilities
- Duplication of mobilization, design, and installation expenses
- Increased maintenance and replacement costs

From a financial perspective, any upfront savings achieved through deferral are often offset—and in some cases exceeded—by increased future capital and operating costs. City Council should also consider the

political pressure to reduce the overall cost of the project. It is likely that those opposed to the project will not view cost reductions favorably unless the project is eliminated altogether. As City Council has learned the building does need to move forward in some form to support the needs of our Fire operation.

Documented Cost Impacts from North Service Center

Our newest building is great, but it's now over 15 years old and over the years, there are some items that could have been done better or as part of the original build.

- Acoustical treatments, window/skylight blinds, and motorized skylight blinds added after initial building occupancy.
- Outdoor electronic display signage installed after project completion.
- Air conditioning being added to the warming house now being completed at a higher cost.
- Key card access added later and added to significant staff burden over the years along with many lost keys and replaced locks.
- Final landscaping design never completed due to costs. Likely resulted in some lost revenue from potential Commons users desire to have wedding space outside.
- Purchase of lower quality AV equipment has proved challenging and was finally replaced.
- Lower-quality cabinetry installed in conference rooms requires earlier replacement and repair.
- Cheap appliances have been replaced.

These examples illustrate that capital cost reductions achieved during construction frequently reappear later as separate capital expenditures, often at higher unit costs.

Financial Implications for the Fire Station Project

For a long-term public safety facility, the financial objective should be to minimize total lifecycle cost, not solely initial construction cost. Excessive value engineering that removes functional or durability-related components increases the likelihood of:

- Future capital requests for retrofits
- Higher operating and maintenance costs
- Reduced return on the City's initial capital investment

Alternate Bid and Campus Considerations

It's worth City Council considering some additional items to improve the overall campus site. These two buildings will coexist on the same site for the next 30-50 years and ideally we can plan a design that makes the site blend seamlessly together.

- Training Tower will provide Fire Department an onsite facility versus using the Maplewood facility.
- Expanded apparatus bay will allow the operation to grow and eventually transfer the north station to the public works operation.
- City Garage to store city vehicles and site maintenance equipment removed from weather and animals
- New landscaping for City Hall including removal of "donut".
- Redesign of parking lot and lighting to blend the two buildings into a cohesive campus.
 - Ramsey County requires 12-15 spots per 1500 voters plus two handicap stalls. 1800 voters currently in precinct one. Parking needs should address the potential for 40+ users of the community room and a full City Council chambers.
- VLAWMO has offered to partner with City to increase stormwater improvements above and beyond current standards. Civil design is considering rerouting stormwater to the north versus south.
- Park amenity between new station and City Hall that connects to new trails through the wetlands.

- Consider redesign of Prairie area with statue. Consider adding an amenity that will attract visitors to the campus. Examples: mini stage, fire pits, playground, water play amenity, etc. Something to make the City campus a mini destination.
- Move/combine signage to corner of County Rd. E and Arcade. Current city hall sign blocks vision for drivers leaving site.
- Consider new Garbage structure for City Hall. Current location and design is not efficient.
- EV chargers to serve a growing number of users in the community.
- Composting Bin (Keep or eliminate, door to door composting is coming in the next handful of years)

Each of these adds costs to the project. Some need to happen at some point. Some are value adds that make the community a better place to live and work. Each of these would be cheaper to include as a part of the bigger project. Some likely would never happen if they do not happen with reconstruction of this campus site.

I'm hopeful adding amenities to the City Campus will intrinsically break down perceived barriers our residents may have with engaging the City. If they've been in City hall because they've been to the amenity on the Campus, maybe they're less intimidated to get a building permit, or join a commission, etc. There's an opportunity with this project to become more welcoming to our residents.

Conclusion

The proposed project cost analysis reflects a variety of potential financing costs to deliver a complete and durable facility. As design advances, value engineering discussions should be framed through a total cost of ownership lens, recognizing that deferring investments often shifts—not eliminates—costs, and does so at a premium.

Based on City Council direction, staff will continue to work with Terra Construction and BKV to identify cost savings opportunities and value adds. Staff recognizes this project is expensive and scope creep can add to that expense. That said, nothing being suggested with the project is excessive. It's investment in our property and community. One thing to remember as a community, if we ask private property owners/developers to invest in their properties, we should lead by example.

MEMORANDUM

TO: Kevin Watson, City Manager
 FROM: Stacie Kvilvang, Ehlers
 DATE: January 14, 2026
 SUBJECT: Funding Options and Levy Impacts – Fire Station Renovation

The City Council had provided staff its preference on issuing bonds for the above-mentioned project that capitalized interest for one year then started annual payments immediately after that. On April 15, 2025, the City Council met to review options for this funding structure with (i) levy increases at 4% and 5%; (ii) determining internal funding requirements until the 2020 debt levy would be available in 2036 (approximately \$467,300); and (iii) option for repayment, if any on the internal funding.

At the meeting staff and Ehlers recommended the 5% levy option since it reduces the need for internal borrowing dollars. In addition, they recommended utilizing the City's pre-1990 TIF funds as the internal funding source. Based upon the information provided, the Council requested to review options for 25 and 30-year debt to see the annual levy and internal funding impact. In addition, they requested to see how the levy and internal funding would be impacted if they utilized approximately \$2 million in cash to buy down the amount of debt required, thus reducing the impact. Staff reviewed those options with the Council in early May, and it was determined that extending the term of the bonds beyond 20 years would put the financing beyond the likely useful life of the facility and cost more. In addition, review of using cash up front didn't mitigate the need for additional internal funding so this option was not recommended so the City could retain the cash for flexibility in use.

The City requested updated numbers with funding of (i) \$23M, \$25M and \$28M; (ii) options for a 2%, 3% and 5% annual levy increase and (iii) no annual internal borrowing. We prepared these options and matched the levy requirement to the \$500,000 available in levy increase in 2026 to determine the 2027 and beyond levy increases as noted below (orange table = levy increase and number of years to max levy) to get to a max levy needed (blue table – max levy above \$460,000 existing levy for 2020A bonds).

\$23M to Construction Fund

Option	Annual Levy Amount (Increase)	Max Debt Levy Needed (above the \$460,000 from the 2020A)	Year Max Levy Met	Total P & I Paid
5% annual levy increase	\$500,000	\$1,386,470	2028	\$ 34,392,335
3% annual levy increase	\$300,000	\$1,394,455	2029	\$ 34,460,338
2% annual levy increase	\$200,000	\$1,497,201	2032	\$ 34,501,716

Year	5% Annual Levy Increase	3% Annual Levy Increase	2% Annual Levy Increase
2027	\$479,051	\$287,431	\$191,621
2028	\$503,004	\$296,054	\$195,453
2029		\$304,935	\$199,362
2030		\$62,817	\$203,349
2031			\$207,416
2032			\$211,565

Note: Debt Levy is at 100% of Debt Service

Levy amount does not increase after the Max Levy Year

\$25M to Construction Fund

Option	Annual Levy Amount (Increase)	Max Debt Levy Needed (above the \$460,000 from the 2020A)	Year Max Levy Met	Total P & I Paid
5% annual levy increase	\$500,000	\$1,596,618	2029	\$ 37,567,296
3% annual levy increase	\$300,000	\$1,640,725	2030	\$ 37,880,081
2% annual levy increase	\$200,000	\$1,658,878	2032	\$ 37,959,155

Year	5% Annual Levy Increase	3% Annual Levy Increase	2% Annual Levy Increase
2027	\$479,051	\$287,431	\$191,621
2028	\$503,004	\$296,054	\$195,453
2029	\$105,631	\$304,935	\$199,362
2030		\$261,736	\$203,349
2031			\$207,416
2032			\$174,541

Note: Debt Levy is at 100% of Debt Service

Levy amount does not increase after the Max Levy Year

\$28M to Construction Fund

Option	Annual Levy Amount (Increase)	Max Debt Levy Needed (above the \$460,000 from the 2020A)	Year Max Levy Met	Total P & I Paid
5% annual levy increase	\$500,000	\$1,772,540	2029	\$ 41,753,847
3% annual levy increase	\$300,000	\$1,828,442	2030	\$ 42,089,135
2% annual levy increase	\$200,000	\$2,022,856	2034	\$ 42,961,807

Year	5% Annual Levy Increase	3% Annual Levy Increase	2% Annual Levy Increase
2027	\$479,051	\$297,012	\$201,202
2028	\$503,004	\$306,219	\$205,427
2029	\$290,485	\$315,712	\$209,741
2030		\$409,499	\$214,145
2031			\$218,642
2032			\$212,604
2033			\$216,856
2034			\$44,239

As noted, for every funding option a 5% levy increase = approximately \$500,000, a 3% increase = approximately \$300,000 and a 2% levy increase = approximately \$200,000. Respectively these equate to an **annual** increase of approximately \$75, \$45 and \$30 on the average value home of \$394,600.

Regardless of the cost of the project, we can structure the repayment of the bonds to meet the desired levy requirements of the City.

SITE PLAN

