

## EAST BETHEL CITY COUNCIL WORK MEETING

November 21, 2012

The East Bethel City Council met on November 21 at 5:30 PM for a City Council work meeting at City Hall.

MEMBERS PRESENT:        Bob DeRoche                Richard Lawrence        Heidi Moegerle

MEMBERS ABSENT:        Bill Boyer                 Steve Voss

ALSO PRESENT:            Jack Davis, City Administrator  
                                  Rita Pierce, Fiscal & Support Services Director  
                                  Mark Vierling, City Attorney

Call to Order        **The November 21, 2012 City Council work meeting was called to order by Mayor Lawrence at 5:30 PM.**

Adopt Agenda        **Moegerle made a motion to adopt the November 21, 2012 City Council work meeting agenda. Lawrence seconded; all in favor, motion carries.**

Discuss Met        Davis, "The work meeting was called tonight to discuss the offers the Met Council has made  
Council SAC        regarding how we pay the indebtedness towards them on the sewer system. There are five points  
and Loan            we have discussed and one additional point that I have had some discussions with them about in  
Proposals           the past week. All these are listed in your write-up and we will go over them individually."

"The first offer that Met Council made was to move back the initial year for SAC collection from 2012 to 2013. Since the wastewater reclamation facilities are not scheduled to be completed until next fall. They couldn't expect us to make any type of payments until they are operational. I would assume there is no discussion on this one and it is readily accepted." DeRoche, "They are the ones that said they wanted to extend this a year. When the contractor ran out of time last winter. Met Council came out and said, "If we litigate, we will probably lose anyways. So give them another year." So as far as I am concerned, they are the ones that pushed it out." Davis, "Even if they hadn't done that, we couldn't be expected to pay anything until they had a project that was up and running." Moegerle, "Doesn't this add to our interest total?" Davis, "No." Lawrence, "I think they are a little optimistic on their startup date."

DeRoche, "What information is available? Because I spent the weekend going through minutes; 2004, 2007, 2009. And Bryce came up here with someone and they are talking about how they came up with these figures. How did they come up with the figures that East Bethel's growth rate will be such as Met Council said it was? They are the ones that set our growth rate. How did they come to that conclusion?" Moegerle, "I heard there were representations by the City that we could do that." Davis, "Initially it was part of the Comp Plan. The final growth numbers were in the report by Bolton & Menk. I am not sure that Met Council developed any growth rate figures. I think it was supplied by others to them. City Council, City staff and consultants." Moegerle, "Pickart talked about that at a meeting. They said the growth rate was going to be down here, and East Bethel said it was up here and they met in the middle." DeRoche, "Did he produce any documentation to prove that? Most of this started in 2007. They really started talking to them in 2008, 2009. By 2008 the economy was really going downhill and someone at Met Council; they don't have any checks and balances? 'This thing in East Bethel is pretty big, maybe we need to take a look at it and see if it is a reality? Maybe we need to scale it back?' They did the same thing with the North Star Rail. They push all this stuff and then they reappoint people and it leaves people in a bind."

Davis, "I wasn't privy to those conversations, and I haven't seen anything that documents anything that links Met Council to those growth rates. The only thing I do know is we did provide them some in the Comp Plan. These were further developed by Bolton and Menk in their presentation of their facilities plan report." Lawrence, "I am sure the Met Council will not say they had recommended the growth for the City. It would be disastrous for them to say that. The main point is how we are going to handle the Met Council proposals they have put before us. They had to know before they started putting the pipe in the ground this wasn't a good idea." Davis, "DeRoche's point is a valid one. I don't know why there wasn't a reevaluation of the project in light of the times."

Moegerle, "I am looking at some e-mails from 2009 that all say 'All commercial properties must connect within the sewer district.' I guess the history of it, it is what it is. We got to deal with what we got." DeRoche, "I am not going to just roll over. I have some questions and I think it is a cop out between Bolton and Menk. They are someone that should be involved in these meetings to provide some answers. They got paid a heck of a lot of money. And I have several statements that were made by them. I was hoping Steve was here because I have 'East Bethel City Council Approves Utility Facility Plan' from the news. Council Member Voss said property owners would not be assessed if they did not want to hook-up. In fact, the financial model in the utility financial plan estimates the existing users will not hook-up until 2030. They didn't plan on Oak Grove hooking up until 2030. And that is one thing Bryce said, it is in the minutes here. They were planning on East Bethel putting this whole thing on their back. Yeah, we backload it. I looked at some of these figures and if we defer to 2018 it is \$284,000 and if we defer to 2023 it is over a 1/2 million dollars more."

Davis, "It would probably be better to go over these individually and then we can discuss them in greater detail. On the first one, we are talking about just moving the SAC collection back to 2013, which is something that we automatically assumed anyway. We do need that in writing form Met Council that we will not pay that as original approved in the agreement we signed."

DeRoche, "It says the proposal will increase at 17% annually instead of 10.6%. And that refers to the growth rate." Davis, "That is in the next item." DeRoche, "You don't think they are all related?" Davis, "They probably are. But trying to mix them all together makes it harder. Looking at them separately so you can get an understanding of each one and then see how they relate to each other is how it works best for me. If it works best for you to do it differently." DeRoche, "Well then, sure, it is good to kick it out to 2013 if the other information makes sense. If we can't make 10.6% how are we going to make 17%?" Davis, "We don't have to do that. Met Council is saying they started out at 100 for projected SAC cost rate. What they are saving now is they will reduce that rate to 50 and change their model, however, the accelerated rate at how those change would increase from 10.6% to 17% a year."

DeRoche, "Everything I have read about the Met Council is our residents will be screwed on this. Because Met Council, once they start, they are a 5.8-6% increase every year. And we are starting out kind of like the well on the north end, where those people came in and complained about their water bills coming in so high. The response they got was there is only a certain amount of you and we have to divvy it up among all of you. Well we are doing the same thing with the sewer only now we are doing it with all the residents." Moegerle, "All the residents were paying for Castle Towers technically too. You were just talking about the treating of the water they got, but, it was also subsidized by other taxes." DeRoche, "They were coming in at \$700 every three months." Moegerle, "I believe the fact is that didn't pay for the maintenance of the plant. That may have paid for some treatment of the water."

Moegerle, "Technically, under 1A, you are saying there are no direct costs with moving that back to 2013?" Davis, "No, 2013 is when things will start now, instead of 2012. The start date

has essentially been moved back a year and they are acknowledging that.”

Moegerle, “With B, when they modify that forecast (and here is the question I have when you talk about forecast), in here there is a \$10 million expansion of the wastewater treatment plant. I assume we are going to be paying for that too. Has Met Council revised their plans and intentions for that \$10 million dollar expansion in 2023?” Davis, “The expansion only happens if there is a build out that is required.” Moegerle, “Then we will be on the hook to pay for the expansion? Does that mean they will still be transporting solids to Fridley? Or is that to solve the problem of transportation of solids to Fridley?” Davis, “From my discussions the transportation of solids will still occur throughout the life of this system. There are three or four smaller systems that utilize this.” Moegerle, “Think about all the carbon. All of those costs they don’t recoup. How can they afford to move solids that far? The wages, overtime and benefits. That is cheaper than building something? Obviously they don’t have big plans that this will be a big thing.”

Davis, “The proposal on B is we can modify where we start on SAC goals. It is like a spreadsheet. If you change one variable here, it changes everything else. But the bottom line stays the same. If we defer certain things, then we will accrue interest on those. It behooves us on all of this to pay as much as we can, when we can, to lessen these interest charges. Also, we can prepay anytime without any penalty. We would need to eliminate as much of the debt as quick as we can. The SAC goals may have some benefit to us even though the rate they increase is accelerated. It takes a number of years for that to catch up. It will take eight or nine years to at least equal out.”

Lawrence, “By that time it will be 2023 and we will be adding an improvement.” Davis, “Look at Exhibit D. Go to the end of the cost sharing agreement. There you will see what the SAC rate would increase. And then, if you look at Rural Growth Center East Bethel Reserve Capacity example, this shows the forecast rate beginning at 50 SAC units. In order for those to equalize out you are going to be somewhere at 2025.” DeRoche, “The reserve capacity loan we are going to be paying interest on that.” Davis, “Here again, we can pay as much as we can, when we can.” DeRoche, “I realize your optimism.” Davis, “It isn’t optimism. We don’t know how many units we are going to get each year. We have already gotten sixteen. We may get another 100 and we may get only the connections that are in the sewer district. If we lower this to 50 and get 67, we are up by 17 units. We have told them, ‘If you charge us interest because we don’t meet our unit goals and if we exceed them we need to get an interest credit for that.’ They said they would consider that and see what they could work out. I think Met Council recognizes the situation here and I think they are going to do everything they can to accommodate us to make this financially successful. Are their numbers going to change? No, but they will rearrange things to make it easier for us to meet our obligations with them.”

Moegerle, “I think this is a start. I don’t know if this is a solution. With regard to the budget, it seems to me we don’t have a line item in the budget for this wastewater project. All its pluses and minuses and all those kinds of things. Can we have that put in there or does that have to be a standing resolution so we can have that broken out and considered. Because in the budget we looked at, we have this bill that we have to pay and it is not included in the budget as I understand it.” Davis, “The way you want to account for it is as an enterprise fund, not part of the general fund. If an enterprise fund is in a deficit, you can use general fund to pay for the deficit. To make this part of the general fund budget, don’t think we want to do that.” Moegerle, “I think it needs to be presented as part of the Budget even if it is on a separate page for the enterprise budget status.”

Lawrence, “Is this like a capital fund?” Davis, “That is correct. This is set up for tax dollars not to support it. For the revenues to support it. I know it may not happen.” Moegerle, “Because we

have to account for the shortfalls. So, if it is not in the general fund budget, the enterprise fund budget needs to be presented at the same time as general fund budget.” Davis, “The only problem with that is we need to make certain assumptions to do that. And depending on who is here at the time, it may be somebody that is even more optimistic than I am.” Moegerle, “When it comes to dollar and cents, we have to plan for it.”

Davis, “As far as reducing the forecast growth rates, which may have some value to us. In anything we do, we need to pay as much on our interest charges as we can to eliminate accumulation of long term interest debt.” Moegerle, “We are paying interest at the rate of 3%. Is that something we could negotiate? Davis, “It is something we could inquire about. I am not sure what their policies are. Our policy would be prime + 1%. We would be looking at 4-5% on loans. It may not be out of line. But, it doesn’t hurt to inquire about it. Met Council is going to be accommodating in shifting some things around, but we are one of 105 cities they represent. So, if they give a break to one, the domino effect is going to kick in. We will contact them and see if there rate has lowered.”

Moegerle, “What about Village Green? Do we have their commitment at this point?” Davis, “We met with them and they are extremely interested. We presented three proposals to them and which they would be obligated to pay the City for the extension of the sewer and water to service them. They would sell the existing wastewater treatment plant they have to the City for \$1. They would be responsible then too, once it was decommissioned they would retain that ownership of that property and have to clean-up those lagoons.” DeRoche, “They had talked, on this Council in July 2008, about purchasing the Village Green system for \$350,000 if they got a CDBG loan. There is a lot more minutes to that that deals with them connecting and somehow that all got lost. What benefit would that be to the City if we grandfather in Village Green and purchase it for a \$1 and have to clean it up? We would be sitting on another Castle Towers.” Davis, “That would be part of the conditions. They would have to clean it up. There would be no credit for SAC units for anything that is existing. The advantage we get is any future connections would have to be charged any city SAC and WAC fees and Met Council SAC fees. What would be to our advantage is the flow and an end of the line user. Improve our maintenance costs and water quality. It would be to our advantage.”

DeRoche, “I think that place is pretty much built out, I don’t see much redevelopment.” Davis, “There won’t be much new development, but it could be redeveloped. Depending on what the use is. The real benefit is getting the flow.” Davis, “I did have a conversation with Charlie Mossefin and I told him the end of the year is the deadline to have some type of agreement or proposal before City Council to consider.” DeRoche, “If we were to hook them up, where does that put the theater? There is a reference that the theater (septic system) is failing in the minutes April 2009. Hunter made a statement that they are pumping every other day because of it and that is why we need the sewer.” Davis, “The theater still wants to connect in the spring time.” DeRoche, “With the 27 SAC units?” Davis, “That is the way it has been left. The model has been predicated on those numbers.” DeRoche, “If Met Council is accepting those 27, which is not new development.” Davis, “They are looking at this a single connection and taking a public system offline.” DeRoche, “That being said, they should at least be one.” Davis, “This exception, they are loosely interpreting their rules by allowing us to grandfather Village Green in. The first time we met with them they said we couldn’t do it. But now acknowledging our situation they have said we can do it and then it becomes a public system.”

Moegerle, “How much of this do we have to spend? We haven’t really started making progress towards Castle Towers.” Davis, “The bids for forcemain were opened last Tuesday. The only thing that has been shared with me is the bids have come in higher than the engineers estimate. Our share of the Met Council project is \$2.5 million. Our segment from 229<sup>th</sup> north is probably going to cost \$1.5 to 1.8 million. That is about \$4.3 million and the last time we checked we had

about \$5.5 million.” Lawrence, “For the benefit of the public, can we break it down to how much are you paying per foot? Everybody gets all excited we are paying too much.” Davis, “We can break it down any way you want. It is competitive bid. This is deep sewers. Not sure everyone understands. Right now we roughly project that we are \$400,000 – \$500,000 under the balance in our bond fund amount. Lawrence, “Have we had any movement with the church over there?” Davis, “No, we met with them last spring and discussed this and left them with the open invitation that when they were ready to pursue this to let us know and we will sit down with them.” DeRoche, “Is that the Islamic Church?” Davis, “Our Saviour’s Church.” Davis, “Will be meeting with them again, Village Green, and if they don’t hook up with us they might be facing closure cost in the future.”

Davis, “The next item is a proposal to reduce the SAC rate charges. The current SAC rate charge for 2012 is \$3,300. It goes up to \$3,400 in 2013. There are two options to reduce to \$3,000 or \$2,600. If we reduce to \$2,600 the annual increase is 4.8%. If we keep it the same it is a 3% rate.” Moegerle, “The question I have is, ‘How do these rates compare to Blaine, and surrounding areas, to their current rates and are their current rates increasing at the rate ours would be increasing?’ I know at the original rate ours were quite higher.” Davis, “Their rates fluctuate more than ours do. Ours are set at a steady appreciation.”

Moegerle, “Can we negotiate to tie our rates to their rates?” Davis, “It would be tough. Our rates are predicated on the cash flow model to help them recover their costs.” DeRoche, “Wouldn’t we have to change to urban?” Davis, “It was explained to me that we couldn’t change to urban rate because we are not contiguous to anyone with an urban area.” Lawrence, “I would personally like to see the fees tied to the current rate that we are growing at.” Davis, “That would be nice.” DeRoche, “I can see where we are compounding more and more costs.” Davis, “If we accept the lower rate, we don’t add more costs. But it takes almost 15 years to equal out. I think for a competitive advantage, this is one we need to accept.” DeRoche, “At the end of the day it gets back to the residents of East Bethel. We are competitive with SAC units, but don’t have any people. If we don’t get SAC units it has to come from somewhere.” Davis, “It doesn’t matter we have to pay it somewhere. Just how we structure the payments out.” DeRoche, “If Met Council was really working with us, they should have said these numbers were high.” Davis, “Blaine might have a lower rate, but we might have a lower land cost.”

Lawrence, “One thing we are looking at is we have reserve fund that we aren’t spending on the bond. We have a forcemain going to Castle Towers, that is the richest area of growth in East Bethel and we will still need another water tower up there.” Davis, “At some time if you want to provide water service. Depending on how far north you go, I think probably we looked at the cost to extend water to Sims Road was around \$2.3 million. To extend to 229<sup>th</sup> was around \$3.1 million.” Lawrence, “I am just talking about adding a water tower.” Davis, “What I am saying is if you add a water tower, you may need to add a water treatment plant.” Lawrence, “We already have a plant at Castle Towers.”

Lawrence, “If we do this plan (that we move the SAC rates to \$2,600), how long until we catch-up?” Davis, “It would be 2028, \$50 cheaper still.” DeRoche, “The fiscal impact is A and B down below?” Davis, “If we start deferring payments until 2018. That would be what we owe on additional interest. Based on what Met Council has provided us. We need to pay as much of it down as we can. Prepayment is allowed. We hope that we can generate some revenues and have some years that we exceed our goals to pay these costs down.” Lawrence, “Even though rates are a little more than \$2,600, I have to think it would give us a little more appeal.” Davis, “If it comes down to Company A is looking at East Bethel and our SAC rate is \$3,400 and Blaine is \$2,300 and they have 100 SAC units, that would be a deal breaker. This will increase our competitiveness.”

DeRoche, "What about going from a 3.7% to 4.8% increase?" Moegerle, "The businesses are." DeRoche, "I understand that will be on the businesses. But if we don't make the goals we have to pay. What is your opinion, Rita?" Pierce, "It would be much more helpful to have a lower SAC rate for businesses that have to hook-up. We make every attempt to pay this every year." Moegerle, "Can we make a standing resolution that we pay this ahead? Or is that binding subsequent Councils?" Davis, "If we say, 'Met Council we want to take advantage of this lower SAC rate charge.' The businesses that have complained that this is a real inconvenience to them, their connection charge will be lowered by \$800 immediately." Lawrence, "Is it better to take the lower or middle rate?" Pierce, "I would go for the lower rate, but make every attempt to pay." Vierling, "The other advantage of going with the lower rate is you were talking about doing something to benefit your local businesses. In all likelihood, they are the ones will have to connect. Which means they are the ones that will have the benefit from the lower charge now."

Davis, "The last option is the least appealing to me. Deferring repayments for either five or ten year period. The interest costs are high. A lot of money. If we can pay those charges down as we can as we go, I think we will be much better off. We can elect to do this at any time. I wouldn't elect to do this at this time." Moegerle, "We need to pay as much as we can." Davis, "Are we going to have growth rates like late 1990's and 2000's? No, but foreclosures are down, housing is up. We are starting to feel it. We know there is some interest. We are promoting ourselves. I think some of these are some positive things. The other thing is that interest credit if we exceed our goals. They say they will work with us on this. Think that is a positive step."

Moegerle, "Looks to me like 1A through 1D, let's get going on that." Davis, "We will have this on the agenda on December 5<sup>th</sup> for approval." DeRoche, "Village Green. I would like to see more information on what the plan is." Davis, "We would use the bond funds to pay for that. The money we receive in repayments, we can use that to pay off the bonds. We pay for the extension with the bond fund money and then we can use the assessment payments to pay off the bonds."

Adjourn

**Moegerle made a motion to adjourn at 6:48 PM. Lawrence seconded; all in favor, motion carries.**

Attest:

Wendy Warren  
Deputy City Clerk