

City of East Bethel
City Council Agenda
Special Meeting – 9:30 AM
Date: February 19, 2011



Item

- | | | |
|----------|------------|---|
| 9:30 AM | 1.0 | Call to Order |
| 9:31 AM | 2.0 | Adopt Agenda |
| 9:33 AM | 3.0 | Landform Third Party Review/Risk Assessment Presentation – Bob Schunicht |
| 10:30 AM | 4.0 | City Sewer and Water Discussion |
| 12:00 PM | 5.0 | Adjourn |



City of East Bethel City Council Agenda Information

Date:

February 19, 2011

Agenda Item Number:

Item 3.0

Agenda Item:

City Administrator Historical Overview of City Sewer and Water Project – David Schaaf

Requested Action:

None

Background Information:

Historical review of the City Sewer and Water project leading up to January 5, 2010.

Attachment(s):

Fiscal Impact:

None

Recommendation(s):

None

City Council Action

Motion by: _____

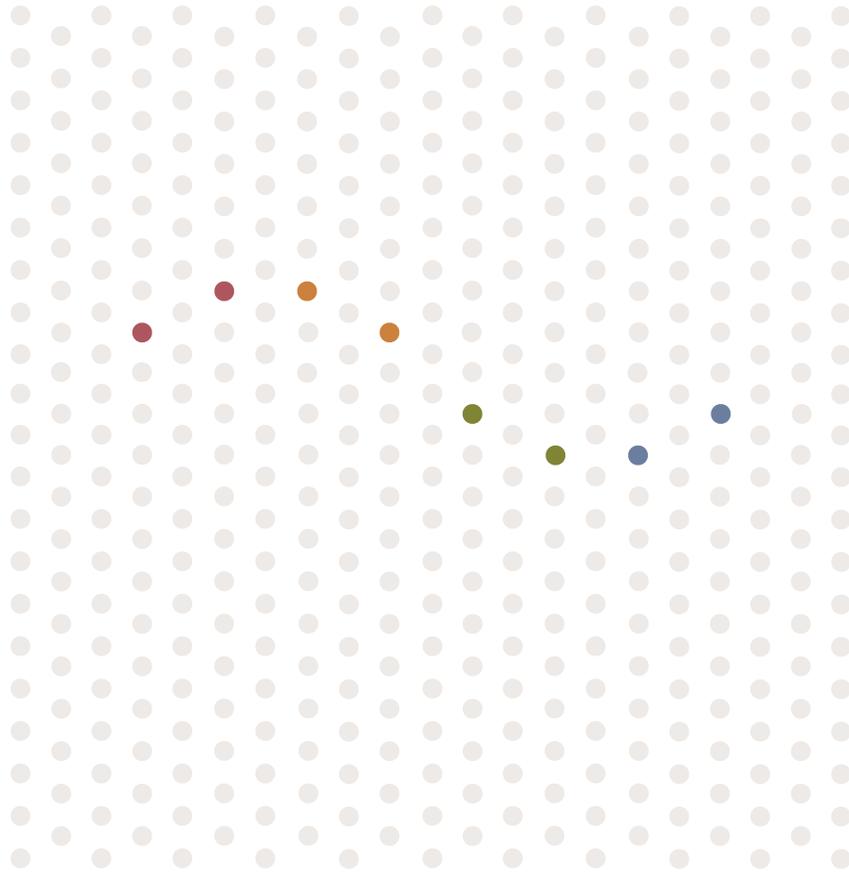
Second by: _____

Vote Yes: _____

Vote No: _____

No Action Required: _____

L A N D F O R M



February 16, 2011

City of East Bethel
2241 221st Avenue NE
East Bethel MN 55011-9790

RE: Review and Risk Assessment
TH 65/Viking Blvd. Infrastructure Improvements

Dear Mayor and Council,

Transmitted herewith is our Review and Risk Assessment of the TH 65/Viking Blvd. Infrastructure Improvements. The report focuses on the current project for improvements in the vicinity of Viking Blvd. and TH65 and the improvements necessary to complete service to the 3 mile by 1.5 mile area along the southern portion of TH 65. The report reviews demographics and compares charges and user rates in the communities around East Bethel. The report presents the results of a risk analysis that compares three potential actions by the City Council:

Proceed with project with water treatment

Proceed with project without water treatment

No build

The two options for proceeding with the project are evaluated under three different growth rates and under more conservative estimates of revenue from lateral benefit and user rates.

I look forward to presenting the results of our study on February 19.

Sincerely,
Landform



Robert G. Schunicht
Vice President

REVIEW and RISK ASSESSMENT

TH 65/VIKING BLVD INFRASTRUCTURE IMPROVEMENTS

CITY OF EAST BETHEL, MINNESOTA

I hereby certify that this report was prepared by me or under my direct supervision and that I am a duly Licensed Professional Engineer under the laws of the State of Minnesota.



Robert G. Schunicht
Date: February 16, 2011
Registration No. 12105

BACKGROUND AND PURPOSE

The City of East Bethel is considering an improvement project to install water and waste water facilities in the vicinity of TH 65 and Viking Boulevard. This project is referred to herein as the 65/Viking project and will install the initial facilities of a system that will eventually serve an area $\frac{3}{4}$ of mile wide on either side of TH 65 between the south City limits and a point approximately $\frac{1}{2}$ mile north of Klondike Drive. This review and risk assessment focuses on the initial 65/Viking project and its service area immediately adjacent to TH 65. The project is currently under suspension pending the completion of this review and risk assessment and a subsequent decision by the City Council.

This study addresses three key questions regarding the 65/Viking project:

1. Do current demographics support growth and provision of urban service in East Bethel?
2. Can East Bethel be competitive with neighboring communities providing urban services?
3. Can the project be funded by growth and not be a liability to existing residents?

This report answers these three questions and provides recommendations for consideration by the East Bethel City Council. The report is organized as follows:

65/Viking Project Summary

Demographic Analysis

Charge and Rate Comparison

Risk Assessment

Summary and Recommendations

65/VIKING PROJECT SUMMARY

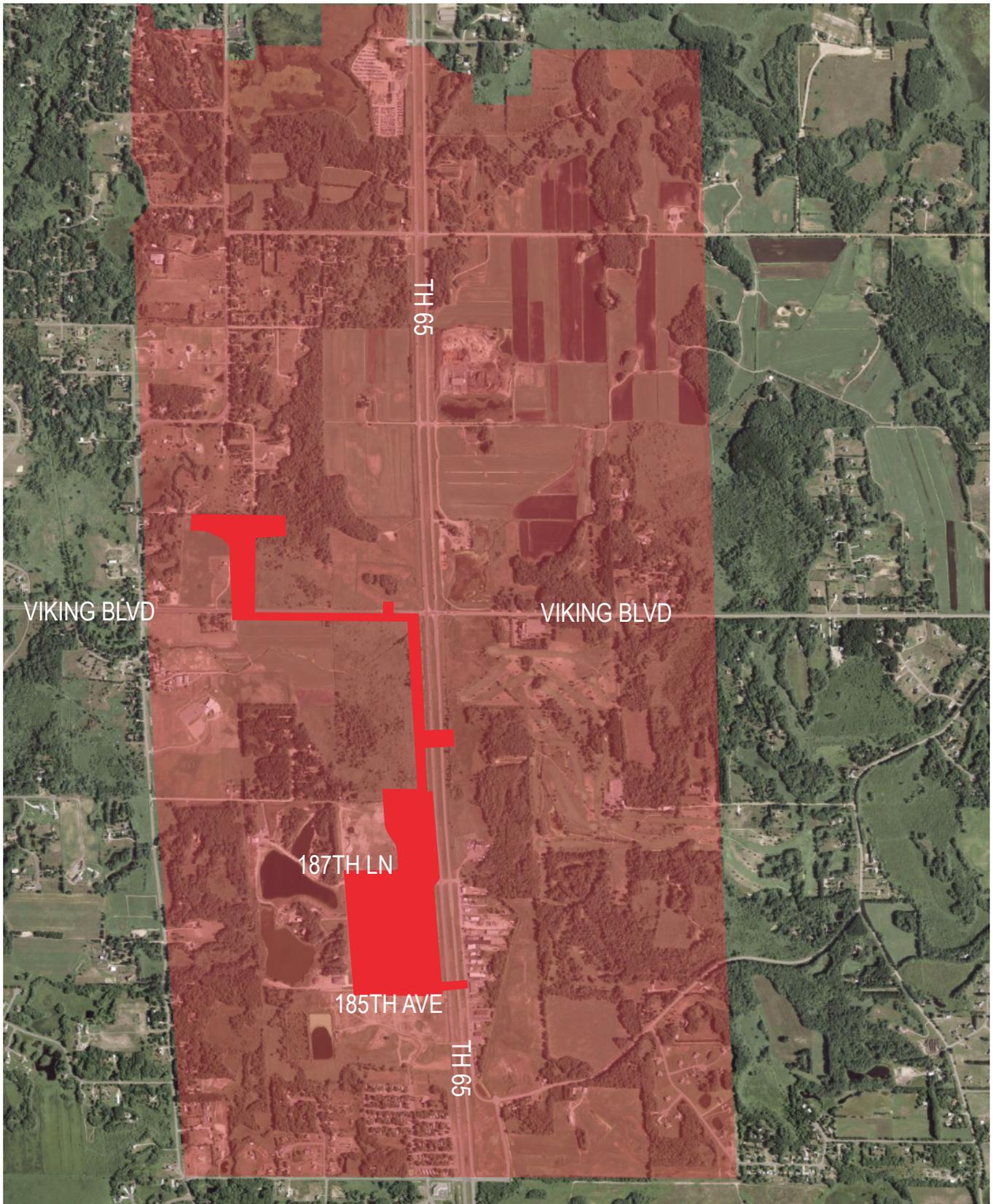
The service area is a three mile long by one and one-half mile wide corridor bisected by Highway 65. It begins at the south city limits and extends to a half mile north of Klondike Drive. A major feature of the service area is the intersection of Viking Boulevard and Highway 65. The City of East Bethel has a plan for a City Center surrounding this intersection. The 65/Viking project provides service to the City Center area and the existing businesses on the west side of Highway 65. The initial project and the service area is shown on Figure 1. A summary of the Equivalent Residential Units (ERUs) for the service area is presented in Table 1.

Table 1 ERU Summary	
Ultimate Potential ERUs	7978
ERUs used for Financial Analysis	4162
ERUs in initial service area	580

The service area, after deleting wetlands and major roadways, has sufficient acreage to support approximately 8,000 ERUs. In most cases, the total potential ERUs will not be achieved so the financial analysis assumes fewer ERUs. A total of 4,162 ERUs is assumed for the financial analysis.

A total of four projects are planned to serve all of the service area. The 65/Viking project provides the initial infrastructure to start urban water and wastewater systems. The City's project includes sewers, water mains, wells, a water tower and a water treatment plant. The complementary Metropolitan Council Environmental Service (MCES) project includes the waste water treatment plant, discharge piping and rapid infiltration basins. The City project has been bid and awarded and is currently suspended. The design of the MCES project is suspended pending the decision on the City's project. A summary of the bid and estimated costs of both projects is presented in Table 2.

Table 2 65/Viking Project and MCES Project Cost Summary	
Item	Cost
City Project	
Wells	\$336,875 (bid)
Water Tower	1,072,000 (bid)
Water Treatment Plant	5,790,000 (bid)
Water and Sewer Piping	4,543,026 (bid)
Land Acquisition/Easements	830,000 (est.)
Indirect Costs	2,870,000 (est.)
Subtotal	\$15,441,901
MCES Project	
Interceptor Sewer	\$8,100,000 (est.)
Waste Water Treatment Plant	9,500,000 (est.)
Infiltration Basins and Piping	5,900,000 (est.)
Land Acquisition	600,000 (est.)
Subtotal	\$24,100,000
Grand Total	\$39,541,902



Celebrating 50 years...
and looking to the future

LEGEND

- INITIAL PROJECT
- 65 / VIKING SERVICE AREA

• • • • •
 L A N D F O R M
 From Site to Finish

FIGURE 1

FEBRUARY 15, 2011

The cost sharing agreement between MCES and East Bethel includes \$2,200,000 for the City's share of the interceptor sewer where the interceptor also serves as a City trunk sewer. The agreement also includes an amortization schedule for City payment over a 30-year period at a 3% interest rate. Considering the City's cost sharing of the interceptor, the MCES is funding approximately 56% of the initial work incorporated into 65/Viking projects. The MCES cost will be funded through their SAC (Service Availability Charge) charge which is collected with the building permit. The agreement also includes a MCES rate surcharge of \$1.98 per 1,000 gallons if the SAC revenue falls below projections. This surcharge would apply only to existing connections and would add approximately \$150/year per ERU.

The City's 65/Viking costs would be funded through a series of three bond issues. These bonds are taxable and were sold in December of 2010 in order to take advantage of expiring federal interest credits. A summary of the bonds is presented in Table 3.

Table 3 Bond Summary				
Item	2010A	2010B	2010C	Total
Amount	\$11,465,000	\$6,100,000	\$1,260,000	\$18,825,000
Project Funds	10,570,362	5,587,596	1,082,966	17,240,924
Capitalized Interest	757,058	439,218	172,263	1,368,539
Bond Type	RZED	BAB	GO	
True Interest	3.795%	4.282%	3.396%	
Term (approx.)	30 years	30 years	7 years	
Interest Savings	1,693,562	232,600	--	1,926,162

The interest savings resulting from the federal credits represents approximately 13 % of the City's net interest payments of \$14.5 million over the life of the two bonds. The bonds were also sold at a very good interest rate. The current rate is approximately 1.5% higher. The bids received on the projects are also very good. The combination of good bids, favorable interest rates, and the MCES agreement to amortize the interceptor cost share result in additional funds available from the bond proceeds. A summary of the additional funds is presented in Table 4.

Table 4 Additional Funds Summary	
Item	Amount
Project Funds Available	\$17,240,924
Estimated Project Cost	15,441,901
Additional Funds	1,799,023

Reserving approximately 2% for contingencies during construction, \$1,500,000 is available to assist in cash flow in the event that connections and revenue vary from projections.

The initial funding for the project was provided through an Anoka County HRA grant of \$642,000. In addition an internal loan of \$240,000 from the Equipment Fund was approved in December. The \$642,000 grant amount has been transferred from the bond proceeds into East Bethel's HRA so the project is funding all the initial costs. The \$240,000 loan is an interest free 10-year loan. The 2010C bond has balloon payments in 2016 and 2017. Depending upon cash flow at that time the City may want to consider issuing a new bond. The cash flow analysis in the Risk Assessment section of this report assumes that the balloon payments are made.

DEMOGRAPHIC ANALYSIS

In January 2004, the Metropolitan Council adopted its 2030 Regional Development Framework. The Council then issued System Statements to each of the communities in the region. Communities were then required to update their comprehensive plans within three years. The City of East Bethel adopted its plan in August 2007. As part of the planning process, East Bethel requested that a portion of the City be designated as a Rural Growth Center. This designation means that the Met Council will use regional investments and incentives to help Rural Growth Centers accommodate growth. A key issue was the ability to provide waste water treatment with disposal through infiltration basins. The MCES explored this issue and concluded that infiltration is feasible. The Met Council's 2030 Regional Development Framework and the 2030 Water Resources Management Policy Plan were amended to incorporate a portion of East Bethel as a Rural Growth Center. A summary of the population and employment projections contained in those plans and in East Bethel's 2008 Comprehensive Plan is presented in Table 5. The data for Andover and Blaine are also presented.

	East Bethel		Andover		Blaine	
Year	Population	Employment	Population	Employment	Population	Employment
2000	10,941	1,374	26,588	3,583	45,014	17,434
2010	12,600	2,000	31,298	4,490	58,020	22,700
2020	18,400	3,300	37,400	5,040	59,100	27,200
2030	23,500	4,500	42,000	5,500	76,100	28,500

Growth along the Highway 65 corridor has slowed over the past four years during the recession. This slowing is reflected in the annual residential unit permits which are tracked by the Met Council. A summary of the residential units permitted for the communities with urban services in the vicinity of East Bethel is presented in Table 6. There is an emerging consensus that the growth rates experienced in 2000-2003 are sustainable growth rates in the Metro Area.

Year	East Bethel	Andover	Blaine	Isanti
2000	93	342	564	69
2001	93	285	668	251
2002	78	248	819	108
2003	115	212	816	106
2004	126	251	1072	270
2005	77	256	668	251
2006	38	153	422	88
2007	23	91	290	37
2008	6	49	238	4
2009	5	46	291	3
2010	n/a	n/a	n/a	12

With fewer lots being developed, lot inventories have decreased over the past four years. A summary of lots developed between 2006 and 2010 and current lot inventories is presented in Table 7.

Table 7 Lot Inventories						
Year	Andover		Blaine		Isanti	
	Lots Developed	Lots Available	Lots Developed	Lots Available	Lots Developed	Lots Available
2006	153	--	876	--	88	--
2007	47	--	353	--	37	--
2008	0	--	17	--	4	--
2009	14	--	25	--	3	--
2010	13	201	109	805	12	500

As cities closer to the core of the Metropolitan Area develop and begin to fill, development will move further out. This outward movement of growth generally follows transportation corridors to cities with urban services. A summary of the remaining developable areas in Andover, Blaine and Isanti is presented in Table 8.

Table 8 Remaining Developable Areas			
	Andover	Blaine	Isanti
Remaining Developable Area (acres)	13,075	6,530	4,663
Percentage of City Developable	58.1%	30%	47%

The Metropolitan Council projects population on a regional basis and then allocates that overall growth to the region's communities. There is a broad regional consensus on the overall population projections in the 2030 Regional Development Framework. The overall regional growth is then allocated to the communities through the system statements. More of this projected growth follows major transportation corridors to contiguous communities with urban services. With the cities to the south of East Bethel beginning to fill growth will move to the north. The growth patterns and projections support East Bethel's Comprehensive Plan to have a portion of the City become a Rural Growth Center.

The exact timing of the growth in East Bethel is difficult to predict. For this reason it is important that any infrastructure projects and their financing be both flexible and frugal.

CHARGE AND USER RATE COMPARISON

The costs of providing waste water and water systems are recovered through a combination of initial charges and user rates. The initial charges include development charges collected at the time of development, connection charges collected with the building permit, and assessments which are spread over a period of years. User charges are the monthly or quarterly charges that are collected from a connected property or business. User charges often recover a portion of the capital costs of the system as well as all the operation costs. East Bethel's cost recovery system uses initial charges to recover approximately 70% of the capital costs and user rates to recover the remainder. A comparison of the proposed East Bethel connection charges with the surrounding communities is presented in Table 9.

Item	East Bethel	Andover	Blaine	Isanti
Water	\$3,600	\$5,185	\$1,536	\$3,270
Sewer	2,000	935	1,714	3,826
SAC	3,300	2,300	2,300	---
Totals	\$8,900	\$8,420	\$5,550	\$7,096

Because of East Bethel's designation as a Rural Growth Center, the SAC is determined based on the more localized cost of providing service rather the average cost throughout the core of the metropolitan service area. East Bethel's SAC is projected to be about \$1,000 higher than the regional SAC. East Bethel's total connection charges are slightly higher than the neighboring communities. This is not unusual when a community is starting its systems. The slight variation in costs should not be a major factor when someone is deciding to locate in the north central suburbs.

A comparison of user charges between communities in the vicinity of East Bethel was prepared and is presented in Table 10. The comparison assumes typical annual waste water usage of 75,000 gallons per ERU and a typical annual water usage of 90,000 per ERU. A more comprehensive user charge comparison is available if desired.

Item	East Bethel	Andover	Blaine	Isanti
Water	\$450	\$230	\$117	\$483
Sewer	416	230	179	497
Totals	\$866	\$460	\$296	\$980

East Bethel's proposed user charges are considerably higher than Blaine and Andover and are comparable to Isanti. If the SAC revenue falls short of projections, there would be a surcharge of approximately \$150 per year per ERU that is not included in the above table.

RISK ASSESSMENT

The City's 65/Viking project, as it is currently configured, incorporates two wells, a water tower, a water treatment plant, water distribution mains and sanitary sewers. The waste water treatment plant is being provided by the MCES. When a city evaluates major infrastructure projects it is important to consider the facilities that are absolutely necessary (needs) and those that are good additions (wants). All the facilities mentioned above, with the exception of the water treatment plant, are necessary for the systems to function. Primary drinking water standards require chlorination and fluoridation of the water which can be accomplished at the wells. The purpose of the water treatment plant is to remove iron and manganese. The majority of the metropolitan area communities using wells have elected to delay providing iron and manganese treatment until the system has enough customers to easily support the plant.

The purpose of the 65/Viking project is to serve existing businesses and new development along TH 65. It is important that the cost of the project be funded by the users of the systems and not be a burden to existing East Bethel taxpayers. Given this clear goal of the project and the anticipated variations in connections to the system, it is prudent to evaluate a modified 65/Viking project that delays the provision of iron and manganese removal treatment until it is clear that water treatment can be supported financially. A no-build option should also be considered. Consideration was given to the option of delaying the start of the project for up to two years. Because interest would be accumulating during the delay period and the cost of the project would be increasing, this option was eliminated from further consideration.

If provision of iron and manganese removal treatment is delayed, it will be necessary to provide chlorination, fluoridation and sequestering treatment along with controls in a pump house constructed at one of the wells. The wells also need to be connected to the distribution system. The cost of these facilities is approximately \$600,000. The elimination of water treatment reduces the administration and inspection cost of the project. The reduction in costs is approximately \$5,600,000. The elimination of the treatment plant would require cancelling of the current contract with MBI Builders and dealing with the excess bond funds. These funds could be used to pay off the MCES cost sharing agreement or to fund other projects. Redemption of the bonds is also a possibility. We suggest a 10% allowance for cancellation of the project and dealing with excess bond funds. The net reduction in current costs for delaying the water treatment plant is estimated at \$5,050,000.

Under the no-build option, all the project contracts would be cancelled and the bonds would be redeemed. Three redemption alternatives are available:

- The most favorable is Extraordinary Redemption where the cost of redemption would be par plus accrued interest. A legal opinion from a nationally recognized bond counsel would be required to say that the bonds are not qualified for federal credits and therefore are subject to Extraordinary Redemption. The argument would be that because the bond proceeds no longer pay for capital project costs they are no longer eligible for federal credits. The City could be subject to a lawsuit from the investors.
- The second option is defeasance where the bonds are paid back at their first call date of February 1, 2021. The City would have to pay interest until that date.
- The third option is to buy back the bonds from the investors. The cost of this option would vary with the market conditions and the willingness of investors to sell back the bonds.

The risk assessment considers the following three options. Table 11 presents a comparison of the costs between the three options:

-65/Viking Project with Water Treatment

-65/Viking Project without Water Treatment

-No Build

Item	65/Viking w/ WTP	65/Viking w/o WTP	No Build
Wells	\$ 336,875	\$ 936,875	---
Water Tower	1,072,000	1,072,000	---
Water Treatment	5,790,000	---	---
Piping	4,543,026	4,543,026	---
Land /Easements	830,000	830,000	\$ 710,000
Indirect Costs	2,870,000	2,470,000	1,761,000
MCES Costs	----	---	2,052,000
Cancellation/Bond	----	250,000-550,000	740,000-5,160,000
TOTAL	\$15,441,901	\$10,101,901-10,401,901	\$5,263,000-9,683,000

Under the best scenario of Extraordinary Redemption, the no-build cost, including expenditures to date and interest through June, is more than half the cost of the 65/Viking project without water treatment.

The primary funding for the 65/Viking project will come from new development and the amount of funding available is based on growth projections. The 2008 Comprehensive Plan for East Bethel provides projections for employment and population growth. These projections were coordinated with the Metropolitan Council's projections for the entire region. The Feasibility Study for the proposed improvements looked at approximately 50% lower growth projections when estimating the revenue for the project. This risk assessment looks at growth rates that are 75% and 50% of the Feasibility Study growth rates. A summary of the alternative growth projections is presented in Table 12.

Year	Comp Plan	Feasibility Study	75% Feasibility Study	50% Feasibility Study
2010	0	0	0	0
2020	3,185	1,264	880	550
2030	5,100	2,243	1,838	1,378

Cash flow analyses were prepared for each of the three risk assessment options. The analyses incorporate income from all the City's proposed charges including development charges, connection charges, assessments and user rates. The costs include payments for the current project, bonding for \$20,560,000 in future improvements to complete service to the 65/Viking Service Area, and the cost of operating the systems. The cash flow analyses used the same spreadsheets as the Feasibility Study, with the exception of a more conservative approach in assuming less income from both the lateral availability charge and the user charges.

The results of the risk assessment analyses are presented in Tables 13-15. Each table presents one of the alternative growth scenarios with the cash flows both with and without the water treatment plant. The final column of the tables shows the year end fund balances. These balances assume that the \$1,500,000 in available funds from the current bond issues will be used to deal with variations in revenue. The spreadsheets also incorporate paying the balloon payments on the 2010C bonds. Rebonding could be considered depending on the cash reserves available at the end of 2015. The \$300,000 project contingency fund, if not used, could provide some additional flexibility as could the \$642,000 in the City's HRA fund.

The analyses confirm the conclusion of the Feasibility Study in that the 65/Viking project with the treatment plant will cash flow at the ERU projections in the Study. The 65/Viking project with water treatment will almost cash flow at a growth rate of 75% of the rate in the Feasibility Study. Rebonding of the 2010C bond in 2016 would keep the year end reserve in the black for the 75% option with treatment. The 65/Viking project without the water treatment plant cash flows under all three options.

**Table 13:
65 / Viking Project
Cash Flow Analysis - Feasibility Study Growth Rates
February 2011**

With Water Treatment Plant									
Year	Total Annual ERUS Conn.	Total ERUS Conn.	Total Annual Revenues	Projected OM&R Expenses	Remaining Rev. for Debt Service	Debt Service Expenses	Total Annual Expenses	Net Income/(Loss)	Year End Reserve Balance
2011	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,500,000
2012	0	0	\$0	\$0	\$0	\$34,517	\$34,517	(\$34,517)	\$1,465,483
2013	75	75	\$473,931	\$134,260	\$339,671	\$260,197	\$394,457	\$79,474	\$1,544,957
2014	75	150	\$596,291	\$141,330	\$454,962	\$708,948	\$850,278	(\$253,986)	\$1,290,971
2015	200	350	\$1,488,997	\$147,738	\$1,341,259	\$1,306,267	\$1,454,005	\$34,992	\$1,325,963
2016	200	550	\$1,759,249	\$155,810	\$1,603,439	\$2,137,976	\$2,293,786	(\$534,537)	\$791,426
2017	200	750	\$2,041,568	\$164,087	\$1,877,481	\$2,019,519	\$2,183,606	(\$142,038)	\$649,388
2018	200	950	\$2,336,453	\$182,614	\$2,153,838	\$1,528,515	\$1,711,129	\$625,324	\$1,274,712
2019	200	1150	\$2,644,421	\$253,870	\$2,390,551	\$1,540,170	\$1,794,040	\$850,381	\$2,125,093
2020	114	1264	\$2,316,628	\$269,623	\$2,047,005	\$2,343,966	\$2,613,589	(\$296,961)	\$1,828,131
2021	114	1379	\$2,520,111	\$284,461	\$2,235,650	\$2,298,081	\$2,582,542	(\$62,431)	\$1,765,701
2022	114	1493	\$2,732,379	\$299,498	\$2,432,881	\$2,353,803	\$2,653,301	\$79,078	\$1,844,778
2023	114	1607	\$2,953,785	\$314,763	\$2,639,022	\$2,337,148	\$2,651,911	\$301,874	\$2,146,652
2024	114	1722	\$3,184,696	\$397,754	\$2,786,942	\$2,392,115	\$2,789,869	\$394,827	\$2,541,479
2025	114	1836	\$3,425,496	\$413,481	\$3,012,014	\$3,228,500	\$3,641,981	(\$216,486)	\$2,324,994
2026	114	1951	\$3,676,578	\$429,453	\$3,247,124	\$3,292,945	\$3,722,398	(\$45,821)	\$2,279,173
2027	114	2065	\$3,938,354	\$445,681	\$3,492,673	\$3,359,266	\$3,804,946	\$133,407	\$2,412,580
2028	114	2179	\$4,211,249	\$462,163	\$3,749,086	\$3,434,577	\$3,896,740	\$314,509	\$2,727,089
2029	114	2294	\$4,495,706	\$478,931	\$4,016,774	\$3,506,961	\$3,985,892	\$509,814	\$3,236,903
2030	129	2423	\$4,946,951	\$496,936	\$4,450,015	\$3,585,481	\$4,082,417	\$864,534	\$4,101,437
2031	129	2552	\$5,286,110	\$515,503	\$4,770,607	\$3,674,622	\$4,190,125	\$1,095,986	\$5,197,423
Without Water Treatment Plant									
2011	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,500,000
2012	0	0	\$0	\$0	\$0	\$34,517	\$34,517	(\$34,517)	\$1,465,483
2013	75	75	\$473,931	\$81,156	\$392,775	\$203,085	\$284,241	\$189,690	\$1,655,173
2014	75	150	\$596,291	\$85,525	\$510,766	\$537,612	\$623,137	(\$26,846)	\$1,628,327
2015	200	350	\$1,488,997	\$89,766	\$1,399,231	\$1,134,931	\$1,224,697	\$264,300	\$1,892,627
2016	200	550	\$1,759,249	\$95,664	\$1,663,585	\$1,903,640	\$1,999,304	(\$240,055)	\$1,652,573
2017	200	750	\$2,041,568	\$101,777	\$1,939,791	\$1,765,453	\$1,867,230	\$174,338	\$1,826,911
2018	200	950	\$2,336,453	\$111,427	\$2,225,026	\$1,213,360	\$1,324,786	\$1,011,666	\$2,838,577
2019	200	1150	\$2,644,421	\$138,636	\$2,505,785	\$1,221,645	\$1,360,282	\$1,284,139	\$4,122,716
2020	114	1264	\$2,316,628	\$147,697	\$2,168,931	\$2,029,695	\$2,177,392	\$139,236	\$4,261,952
2021	114	1379	\$2,520,111	\$155,841	\$2,364,270	\$2,023,315	\$2,179,156	\$340,955	\$4,602,907
2022	114	1493	\$2,732,379	\$164,191	\$2,568,187	\$2,079,173	\$2,243,364	\$489,014	\$5,091,922
2023	114	1607	\$2,953,785	\$172,763	\$2,781,022	\$2,056,477	\$2,229,240	\$724,545	\$5,816,467
2024	114	1722	\$3,184,696	\$203,836	\$2,980,860	\$2,112,785	\$2,316,621	\$868,075	\$6,684,542
2025	114	1836	\$3,425,496	\$212,870	\$3,212,626	\$2,947,138	\$3,160,008	\$265,487	\$6,950,029
2026	114	1951	\$3,676,578	\$222,149	\$3,454,429	\$3,009,807	\$3,231,955	\$444,622	\$7,394,652
2027	114	2065	\$3,938,354	\$231,683	\$3,706,671	\$3,075,486	\$3,307,169	\$631,184	\$8,025,836
2028	114	2179	\$4,211,249	\$241,478	\$3,969,770	\$3,150,452	\$3,391,930	\$819,319	\$8,845,155
2029	114	2294	\$4,495,706	\$251,553	\$4,244,152	\$3,219,286	\$3,470,839	\$1,024,866	\$9,870,021
2030	129	2423	\$4,946,951	\$262,228	\$4,684,722	\$3,294,699	\$3,556,928	\$1,390,023	\$11,260,044
2031	129	2552	\$5,286,110	\$273,466	\$5,012,645	\$3,384,678	\$3,658,143	\$1,627,967	\$12,888,011

**Table 14:
65 / Viking Project
Cash Flow Analysis - 75% Feasibility Study Growth Rates
February 2011**

With Water Treatment Plant									
Year	Total Annual ERUS Conn.	Total ERUS Conn.	Total Annual Revenues	Projected OM&R Expenses	Remaining Rev. for Debt Service	Debt Service Expenses	Total Annual Expenses	Net Income/(Loss)	Year End Reserve Balance
2011	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,500,000
2012	0	0	\$0	\$0	\$0	\$34,517	\$34,517	(\$34,517)	\$1,465,483
2013	50	50	\$317,406	\$107,408	\$209,998	\$260,197	\$367,605	(\$50,199)	\$1,415,284
2014	50	100	\$399,326	\$112,833	\$286,493	\$708,948	\$821,781	(\$422,455)	\$992,829
2015	50	150	\$1,082,710	\$117,718	\$964,992	\$713,301	\$831,019	\$251,691	\$1,244,520
2016	146	296	\$1,292,824	\$122,710	\$1,170,114	\$2,155,765	\$2,278,475	(\$985,651)	\$258,869
2017	146	442	\$1,501,089	\$128,747	\$1,372,342	\$2,037,308	\$2,166,055	(\$664,966)	(\$406,097)
2018	146	588	\$1,718,621	\$142,956	\$1,575,665	\$1,546,304	\$1,689,260	\$29,361	(\$376,736)
2019	146	734	\$1,945,825	\$199,318	\$1,746,507	\$1,557,959	\$1,757,277	\$188,548	(\$188,188)
2020	146	880	\$2,157,758	\$211,249	\$1,946,509	\$1,674,345	\$1,885,594	\$272,164	\$83,977
2021	146	1026	\$2,298,503	\$223,355	\$2,075,148	\$1,628,460	\$1,851,815	\$446,688	\$530,665
2022	124	1150	\$2,229,281	\$235,635	\$1,993,646	\$1,684,182	\$1,919,817	\$309,464	\$840,129
2023	86	1236	\$2,297,048	\$247,996	\$2,049,052	\$2,418,679	\$2,666,675	(\$369,627)	\$470,502
2024	86	1322	\$2,477,880	\$314,195	\$2,163,685	\$2,473,646	\$2,787,841	(\$309,960)	\$160,542
2025	86	1408	\$2,656,136	\$326,333	\$2,329,803	\$2,513,134	\$2,839,467	(\$183,331)	(\$22,789)
2026	86	1494	\$2,852,576	\$338,648	\$2,513,928	\$2,577,579	\$2,916,226	(\$63,651)	(\$86,439)
2027	86	1580	\$3,046,399	\$351,146	\$2,695,253	\$2,643,900	\$2,995,045	\$51,354	(\$35,085)
2028	86	1666	\$3,259,701	\$363,827	\$2,895,874	\$2,719,211	\$3,083,037	\$176,664	\$141,579
2029	86	1752	\$3,470,366	\$376,714	\$3,093,652	\$2,791,595	\$3,168,309	\$302,057	\$443,636
2030	86	1838	\$3,773,806	\$390,569	\$3,383,237	\$3,793,936	\$4,184,505	(\$410,699)	\$32,936
2031	86	1924	\$4,015,897	\$404,793	\$3,611,104	\$3,883,077	\$4,287,870	(\$271,973)	(\$239,037)
Without Water Treatment Plant									
2011	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,500,000
2012	0	0	\$0	\$0	\$0	\$34,517	\$34,517	(\$34,517)	\$1,465,483
2013	50	50	\$317,406	\$63,815	\$253,591	\$203,085	\$266,900	\$50,506	\$1,515,989
2014	50	100	\$399,326	\$67,024	\$332,302	\$537,612	\$604,636	(\$205,310)	\$1,310,679
2015	50	150	\$1,082,710	\$70,129	\$1,012,581	\$541,965	\$612,094	\$470,616	\$1,781,296
2016	146	296	\$1,292,824	\$73,336	\$1,219,487	\$1,921,429	\$1,994,765	(\$701,942)	\$1,079,354
2017	146	442	\$1,501,089	\$77,597	\$1,423,492	\$1,783,242	\$1,860,839	(\$359,750)	\$719,604
2018	146	588	\$1,718,621	\$84,518	\$1,634,103	\$1,231,149	\$1,315,667	\$402,954	\$1,122,559
2019	146	734	\$1,945,825	\$104,724	\$1,841,102	\$1,239,434	\$1,344,158	\$601,667	\$1,724,226
2020	146	880	\$2,157,758	\$111,160	\$2,046,598	\$1,360,074	\$1,471,234	\$686,524	\$2,410,749
2021	146	1026	\$2,298,503	\$117,771	\$2,180,732	\$1,353,694	\$1,471,465	\$827,038	\$3,237,787
2022	124	1150	\$2,229,281	\$124,562	\$2,104,719	\$1,409,552	\$1,534,114	\$695,167	\$3,932,954
2023	86	1236	\$2,297,048	\$131,429	\$2,165,619	\$2,138,007	\$2,269,437	\$27,612	\$3,960,566
2024	86	1322	\$2,477,880	\$155,009	\$2,322,872	\$2,194,315	\$2,349,324	\$128,556	\$4,089,122
2025	86	1408	\$2,656,136	\$161,652	\$2,494,484	\$2,231,772	\$2,393,424	\$262,712	\$4,351,834
2026	86	1494	\$2,852,576	\$168,472	\$2,684,103	\$2,294,440	\$2,462,913	\$389,663	\$4,741,497
2027	86	1580	\$3,046,399	\$175,476	\$2,870,923	\$2,360,120	\$2,535,596	\$510,803	\$5,252,300
2028	86	1666	\$3,259,701	\$182,668	\$3,077,033	\$2,435,085	\$2,617,753	\$641,948	\$5,894,248
2029	86	1752	\$3,470,366	\$190,061	\$3,280,305	\$2,503,920	\$2,693,981	\$776,385	\$6,670,634
2030	86	1838	\$3,773,806	\$197,899	\$3,575,907	\$3,503,155	\$3,701,053	\$72,753	\$6,743,386
2031	86	1924	\$4,015,897	\$206,106	\$3,809,791	\$3,593,133	\$3,799,239	\$216,658	\$6,960,045

**Table 15:
65 / Viking Project
Cash Flow Analysis - 50% Feasibility Study Growth Rates
February 2011**

With Water Treatment Plant									
Year	Total Annual ERUS Conn.	Total ERUS Conn.	Total Annual Revenues	Projected OM&R Expenses	Remaining Rev. for Debt Service	Debt Service Expenses	Total Annual Expenses	Net Income/(Loss)	Year End Reserve Balance
2011	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,500,000
2012	0	0	\$0	\$0	\$0	\$34,517	\$34,517	(\$34,517)	\$1,465,483
2013	37	37	\$235,904	\$89,535	\$146,369	\$260,197	\$349,732	(\$113,828)	\$1,351,655
2014	38	75	\$299,191	\$93,957	\$205,233	\$708,948	\$802,905	(\$503,715)	\$847,940
2015	37	112	\$764,995	\$97,932	\$667,063	\$713,301	\$811,233	(\$46,238)	\$801,702
2016	38	150	\$912,962	\$101,983	\$810,978	\$1,545,010	\$1,646,993	(\$734,032)	\$67,670
2017	100	250	\$1,037,425	\$106,114	\$931,311	\$2,055,631	\$2,161,744	(\$1,124,319)	(\$1,056,650)
2018	100	350	\$1,180,740	\$117,538	\$1,063,202	\$1,564,627	\$1,682,165	(\$501,425)	(\$1,558,074)
2019	100	450	\$1,330,473	\$164,088	\$1,166,385	\$1,576,282	\$1,740,370	(\$409,897)	(\$1,967,971)
2020	100	550	\$1,473,613	\$173,572	\$1,300,041	\$1,692,668	\$1,866,240	(\$392,626)	(\$2,360,598)
2021	100	650	\$1,623,313	\$183,180	\$1,440,133	\$1,646,783	\$1,829,962	(\$206,649)	(\$2,567,247)
2022	100	750	\$1,779,847	\$192,910	\$1,586,937	\$1,702,505	\$1,895,415	(\$115,567)	(\$2,682,814)
2023	100	850	\$1,943,500	\$202,782	\$1,740,718	\$1,685,850	\$1,888,631	\$54,868	(\$2,627,946)
2024	100	950	\$2,104,114	\$257,815	\$1,846,298	\$1,740,817	\$1,998,632	\$105,482	(\$2,522,464)
2025	100	1050	\$2,060,243	\$267,972	\$1,792,271	\$1,780,305	\$2,048,277	\$11,966	(\$2,510,498)
2026	100	1150	\$2,212,140	\$278,281	\$1,933,859	\$1,844,750	\$2,123,030	\$89,109	(\$2,421,388)
2027	57	1207	\$2,232,452	\$288,747	\$1,943,705	\$2,756,498	\$3,045,245	(\$812,793)	(\$3,234,181)
2028	57	1264	\$2,376,307	\$298,903	\$2,077,404	\$2,831,809	\$3,130,712	(\$754,405)	(\$3,988,586)
2029	57	1321	\$2,526,160	\$309,213	\$2,216,947	\$2,904,193	\$3,213,407	(\$687,247)	(\$4,675,833)
2030	57	1378	\$2,734,555	\$320,311	\$2,414,244	\$2,982,713	\$3,303,024	(\$568,469)	(\$5,244,302)
2031	57	1435	\$2,899,992	\$331,662	\$2,568,331	\$3,071,854	\$3,403,516	(\$503,524)	(\$5,747,825)
Without Water Treatment Plant									
2011	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,500,000
2012	0	0	\$0	\$0	\$0	\$34,517	\$34,517	(\$34,517)	\$1,465,483
2013	37	37	\$235,904	\$48,558	\$187,346	\$203,085	\$251,643	(\$15,739)	\$1,449,744
2014	38	75	\$299,191	\$50,897	\$248,294	\$537,612	\$588,508	(\$289,318)	\$1,160,426
2015	37	112	\$764,995	\$53,199	\$711,796	\$541,965	\$595,164	\$169,831	\$1,330,257
2016	38	150	\$912,962	\$55,572	\$857,389	\$1,310,674	\$1,366,246	(\$453,285)	\$876,973
2017	100	250	\$1,037,425	\$58,033	\$979,392	\$1,801,564	\$1,859,597	(\$822,172)	\$54,801
2018	100	350	\$1,180,740	\$62,607	\$1,118,133	\$1,249,471	\$1,312,078	(\$131,338)	(\$76,537)
2019	100	450	\$1,330,473	\$75,169	\$1,255,304	\$1,257,757	\$1,332,926	(\$2,453)	(\$78,991)
2020	100	550	\$1,473,613	\$79,488	\$1,394,125	\$1,378,397	\$1,457,885	\$15,728	(\$63,263)
2021	100	650	\$1,623,313	\$83,931	\$1,539,382	\$1,372,016	\$1,455,948	\$167,365	\$104,102
2022	100	750	\$1,779,847	\$88,502	\$1,691,345	\$1,427,874	\$1,516,376	\$263,471	\$367,573
2023	100	850	\$1,943,500	\$93,209	\$1,850,291	\$1,405,178	\$1,498,387	\$445,113	\$812,686
2024	100	950	\$2,104,114	\$108,180	\$1,995,934	\$1,461,486	\$1,569,667	\$534,447	\$1,347,133
2025	100	1050	\$2,060,243	\$113,172	\$1,947,071	\$1,498,943	\$1,612,115	\$448,128	\$1,795,261
2026	100	1150	\$2,212,140	\$118,316	\$2,093,824	\$1,561,611	\$1,679,927	\$532,213	\$2,327,474
2027	57	1207	\$2,232,452	\$123,617	\$2,108,835	\$2,472,719	\$2,596,336	(\$363,884)	\$1,963,590
2028	57	1264	\$2,376,307	\$128,614	\$2,247,694	\$2,547,684	\$2,676,298	(\$299,990)	\$1,663,600
2029	57	1321	\$2,526,160	\$133,759	\$2,392,401	\$2,616,518	\$2,750,278	(\$224,118)	\$1,439,482
2030	57	1378	\$2,734,555	\$139,201	\$2,595,355	\$2,691,932	\$2,831,133	(\$96,577)	\$1,342,905
2031	57	1435	\$2,899,992	\$144,896	\$2,755,097	\$2,781,910	\$2,926,806	(\$26,813)	\$1,316,092

SUMMARY AND RECOMMENDATIONS

The City of East Bethel is considering improvements that will provide initial water and sewer service in the vicinity of TH 65 and Viking Boulevard. Additional future improvements are required to completely serve the 65/Viking Service Area which consists of 4.5 square miles of land on either side of TH 65 in southern East Bethel. The risk analysis evaluates the improvement costs, operation costs, and growth rates to determine if the City can successfully serve the 65/Viking Service Area without financially impacting existing residents.

The overall Metropolitan Area growth patterns and local demographics support continued growth in contiguous areas along transportation corridors such as TH 65 in East Bethel. The recent slowing of growth points toward a flexible and frugal approach to improvement projects. A comparison of development and connection charges and user rates indicate that East Bethel's proposed rates are somewhat higher than its southerly neighbors but still in an acceptable range.

The Metropolitan Council (MCES) is partnering with East Bethel by providing waste water treatment and interceptor collection service to the 65/Viking Service Area. The MCES's proposed \$24 million investment in East Bethel represents 56% of the initial cost of the systems. Bonds have been sold for the City's share of the project with interest rates that are 1.5% below the current rates. The bonds have a federal tax credit that will save almost \$2 million in interest over the life of the bonds. The construction bid prices are also favorable.

The City project, as awarded, incorporates a water treatment plant to remove iron and manganese. Most Metro Area cities using well water have elected not to provide such treatment with their initial water systems. Given the anticipated variations in growth rates and the resulting revenue, it is prudent for the City to consider delaying the provision of iron and manganese removal treatment. Delaying the water treatment plant reduces the cost of the current project by approximately \$5,050,000, or almost a third of the City's cost.

The risk analysis assumes that \$1,500,000 in additional bond funds would be used to help with cash flow in the early stages of the system operation. The risk analysis demonstrates that the 65/Viking project will cash flow at a significantly lower growth rate if the treatment plant is delayed. The City has several additional options for aiding project cash flow including the \$300,000 project contingency, the \$642,000 HRA Fund balance, and rebonding of the 2010C bonds to extend the balloon payments. The risk analysis also shows that risk/cost of the no-build option is in the range of \$5,263,000-9,683,000.

The following recommendations are presented for consideration by the East Bethel City Council:

1. Proceed with the 65/Viking project without the water plant by removing the suspensions on the well, water tower and piping contracts.
2. Explore options for using or redeeming the excess bond funds resulting from the reduced project.
3. Proceed immediately with a test well to confirm the water quality at the future treatment plant site.



City of East Bethel City Council Agenda Information

Date:

February 19, 2011

Agenda Item Number:

Item 3.0

Agenda Item:

Landform Third Party Review/Risk Assessment Presentation – Bob Schunicht

Requested Action:

Informational Only

Background Information:

At the January 24, 2011 continuation of the January 19, 2011 City Council meeting, Council approved moving forward with a Third Party Review/Risk Assessment with Landform. Bob Schunicht from Landform has completed the Third Party Review/Risk Assessment and will be making a presentation on his recommendations from this assessment.

Attachment:

- 1. Review and Risk Assessment Report

Fiscal Impact:

Unknown at this time.

Recommendation:

Informational Only

City Council Action

Motion by:_____

Second by:_____

Vote Yes:_____

Vote No:_____

No Action Required:_____



City Council Agenda

City Council Special Mtg– 9:30 a.m.

Date: February 19, 2011



Please keep cell phones turned off during the meeting. Thank you.

Item

- 1.0 Call to Order
- 2.0 Adopt Agenda
- 3.0 Landform Third Party Review/Risk Assessment Presentation – Bob Schunicht
- 4.0 City Sewer and Water Discussion
- 5.0 Adjourn

Review and Risk Assessment

TH 65/Viking Drive Infrastructure Improvements

February 19, 2011 Presentation

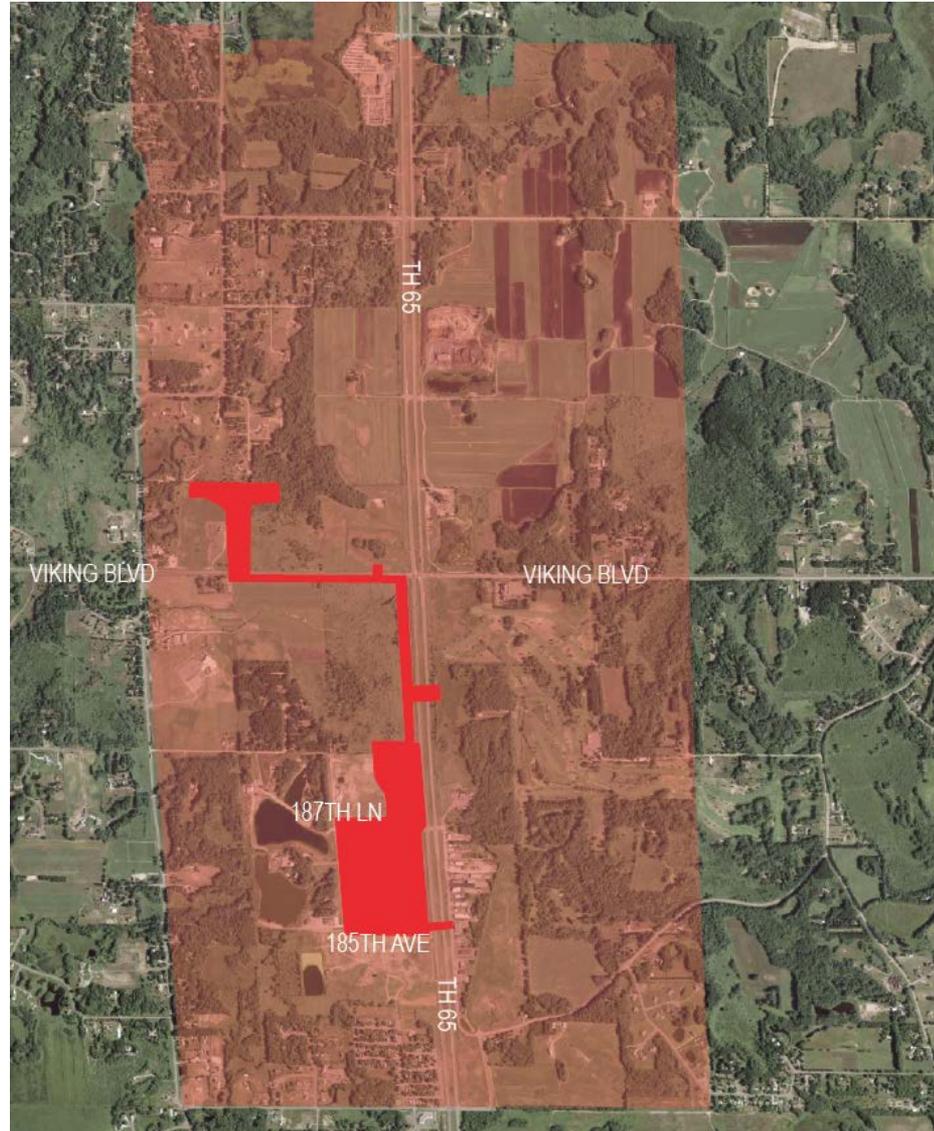
Landform



*Celebrating 50 years....
and looking to the future*



Project and Service Areas



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and looking to the future

L A N D F O R M

Background and Purpose

- Do current demographics support growth and provision of urban service in East Bethel?
- Can East Bethel be competitive with neighboring communities providing urban services?
- Can the project be funded by growth and not be a liability to existing residents?



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and looking to the future*

Table 1 ERU Summary	
Ultimate Potential ERUs	7,978
ERUs used for Financial Analysis	4,162
ERUs in initial service area	580

ERU = Equivalent Residential Unit



65/Viking Project and MCES Cost Summary

Table 2	
65/Viking Project and MCES Project Cost Summary	
Item	Cost
City Project	
Wells	\$336,875 (bid)
Water Tower	1,072,000 (bid)
Water Treatment Plant	5,790,000 (bid)
Water and Sewer Piping	4,543,026 (bid)
Land Acquisition/Easements	830,000 (est.)
Indirect Costs	2,870,000 (est.)
Subtotal	\$15,441,901
MCES Project	
Interceptor Sewer	\$8,100,000 (est.)
Waste Water Treatment Plant	9,500,000 (est.)
Infiltration Basins and Piping	5,900,000 (est.)
Land Acquisition	600,000 (est.)
Subtotal	\$24,100,000
Grand Total	\$39,541,902



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and looking to the future

Bond Summary

Table 3 Bond Summary				
Item	2010A	2010B	2010C	Total
Amount	\$11,465,000	\$6,100,000	\$1,260,000	\$18,825,000
Project Funds	10,570,362	5,587,596	1,082,966	17,240,924
Capitalized Interest	757,058	439,218	172,263	1,368,539
Bond Type	RZED	BAB	GO	
True Interest	3.795%	4.282%	3.396%	
Term (approx.)	30 years	30 years	7 years	
Interest Savings	1, 693,562	232,600	--	1,926,162

- \$642,000 transferred to City HRA Fund
- \$240,000 no interest 10-year loan from Equipment Fund

Additional Funds Summary

Table 4
Additional Funds Summary

Item	Amount
Project Funds Available	\$17,240,924
Estimated Project Cost	15,441,901
Additional Funds	1,799,023

- 2%/\$300,000 contingency = \$1.5M available Funds



Metropolitan Council Forecasts

Table 5 Metropolitan Council Forecasts						
	East Bethel		Andover		Blaine	
Year	Population	Employment	Population	Employment	Population	Employment
2000	10,941	1,374	26,588	3,583	45,014	17,434
2010	12,600	2,000	31,298	4,490	59,100	22,700
2020	18,400	3,300	37,400	5,040	76,100	27,200
2030	23,500	4,500	42,000	5,500	78,000	28,500



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and looking to the future

Permitted Residential Unit Summary

Table 6 Permitted Residential Unit Summary				
Year	East Bethel	Andover	Blaine	Isanti
2000	93	342	564	69
2001	93	285	668	251
2002	78	248	819	108
2003	115	212	816	106
2004	126	251	1072	270
2005	77	256	668	251
2006	38	153	422	88
2007	23	91	290	37
2008	6	49	238	4
2009	5	46	291	3
2010	n/a	71	n/a	12



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L A N D F O R M

Lot Inventories

**Table 7
Lot Inventories**

Year	Andover		Blaine		Isanti	
	Lots Developed	Lots Available	Lots Developed	Lots Available	Lots Developed	Lots Available
2006	153	--	876	--	88	--
2007	47	--	353	--	37	--
2008	0	--	17	--	4	--
2009	14	--	25	--	3	--
2010	13	201	109	805	12	500



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and looking to the future*

Remaining Developable Areas

Table 8 Remaining Developable Areas			
	Andover	Blaine	Isanti
Remaining Developable Area (acres)	13,075	6,530	4,663
Percentage of City Developable	58.1%	30%	47%



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and looking to the future*

Connection Charge Comparison

Table 9
Connection (Development) Charge Comparison (per ERU)

Item	East Bethel	Andover	Blaine	Isanti
Water	\$3,600	\$5,185	\$1,536	\$3,270
Sewer	2,000	935	1,714	3,826
SAC	3,300	2,300	2,300	---
Totals	\$8,900	\$8,420	\$5,550	\$7,096



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and looking to the future

Annual User Charge Comparison

Table 10
Annual User Charge Comparison (per ERU)

Item	East Bethel	Andover	Blaine	Isanti
Water	\$450	\$230	\$117	\$483
Sewer	416	230	179	497
Totals	\$866	\$460	\$296	\$980



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and looking to the future*

- 65/Viking Project with Water Treatment
- 65/Viking Project without Water Treatment
- No Build



- Bond Redemption Alternatives
 - Extraordinary Redemption
 - Defeasance
 - Buy Back



Risk Assessment Alternative Cost Comparison

Table 11 Risk Assessment Alternative Cost Comparison			
Item	65/Viking w/ WTP	65/Viking w/o WTP	No Build
Wells	\$ 336,875	\$ 936,875	---
Water Tower	1,072,000	1,072,000	---
Water Treatment	5,790,000	---	---
Piping	4,543,026	4,543,026	---
Land /Easements	830,000	830,000	\$ 710,000
Indirect Costs	2,870,000	2,470,000	1,761,000
MCES Costs	----	---	2,052,000
Cancellation/Bond	----	250,000-550,000	740,000-5,160,000
TOTAL	\$15,441,901	\$10,101,901-10,401,901	\$5,263,000-9,683,000

Growth Rate Comparison

Table 12
Growth Rate Comparison (ERUs)

Year	Comp Plan	Feasibility Study	75% Feasibility Study	50% Feasibility Study
2010	0	0	0	0
2020	3,185	1,264	880	550
2030	5,100	2,423	1,838	1,378



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and looking to the future*

Risk Analysis – Minimum Balance Summary (Assumes \$1.5M initial balance)

Growth Rate	65/Viking with Water Treatment	65/Viking without Water Treatment
Feasibility Study	\$649,388	\$1,465,483
75% Feasibility Study	(\$406,097)	\$719,604
50% Feasibility Study	(\$5,747,825)	(\$78,991)



- MCES Share is \$24M or 56%
- Federal credits save \$2M
- Favorable bids and bond rates
- Demographics support continued northward growth along TH 65
- East Bethel's charger and rates are in an acceptable range
- Delaying water treatment reduces 65/Viking Project by \$5.05M or approx. 1/3
- Project without WTP cash flows at 50% of feasibility study growth rate



Recommended Options

- Proceed with the 65/Viking project without the water treatment plant
- Explore options for using or redeeming the excess bond funds
- Proceed immediately with a test well at the water treatment plant site

