

EAST BETHEL CITY COUNCIL WORK MEETING

October 27, 2011

The East Bethel City Council met on October 27, 2011 for a work meeting at City Hall.

MEMBERS PRESENT: Bob DeRoche Richard Lawrence Steve Voss

MEMBERS EXCUSED: Bill Boyer Heidi Moegerle

ALSO PRESENT: Jack Davis, City Administrator
 Rita Pierce, Fiscal and Support Services Director

Call to Order The October 27, 2011 City Council work meeting was called to order by Mayor Lawrence at 8:00 PM.

Adopt Agenda **Lawrence made a motion to adopt the October 27, 2011 City Council Work Meeting Agenda. DeRoche seconded; all in favor, motion carries.**

Davis said we are here to discuss an ERU Reduction Policy. He said we had previously discussed the ERU Reduction Policy based on water usage but after looking at it he doesn't think it fits our purposes. The main reason is water usage doesn't relate to the main way we need to generate funds for the project cost. Most of the people we have that will be hooking up to our system will be low volume water users. Davis said to meet the ERUs that are necessary and assigned to this project to generate the revenue to pay off the bonds is not going to match what water use is going to provide. He said the other thing about water use is it is something that would have to be monitored; meters would have to be installed. Davis said and he doesn't think that is a policy that is going to be applicable to our situation.

Davis said he has proposed another way to do this and generally it is just based on starting out with giving everyone that is going to hook up a one ERU reduction. Further reductions would be given based on the amount of property tax that the businesses pay, and that could be broken down in increments. He said based on the number that he used was \$17,000. Davis said there is no magic in the \$17,000; he used this because it is an equivalent to one ERU including the Met Council SAC fee. He said if you based it on that, and divide it into the property taxes each owner pays that would come up to another ERU reduction. Davis said however, if the ERU reduction was one to begin with, they wouldn't be entitled to any further ERU reduction, or he wouldn't recommend we reduce it beyond one ERU.

Davis said if you follow this, the first attachment shows the property owners in the Phase One segment which is the west side of Hwy. 65. Includes their ERUs assignments given by the Met Council, provided by Bolton and Menk and their 2011 property taxes. At bottom of page there is a total of 111 ERUs. In Bolton and Menks Phase One study they had 150 ERUs. He said the difference is when we downgraded the water plant the ERUs went from 40 for proposed water plant to 1 for the existing. Davis said so we are down 39 ERUs to begin with.

Davis said attachment 2 is a map that shows developed properties and vacant lots. He said the shaded areas are vacant properties within the west side Phase One project area, in the assessed area. There is one property in lower southwest corner, MCES WTF site originally they were looking at being assigned 2 ERUs they might not be assigned any. Davis said

what we have here is for existing businesses already there 51 ERUs assigned and for lots not developed 60 ERUs assigned.

Davis said attachment 3 is a breakdown of property owners, acreage and taxes paid. This again is just the assessed properties on the west side of Hwy. 65. Voss asked out of curiosity, Landwehr's corner property, why are they assigned 5 ERUs. He said there is nothing there; it is just an empty lot. Davis said that puzzled him also. He said this is one that we may have to look at. Davis said it may be because it is a corner lot. He said but if you look at the other corner lot, Rickey's they have a building and they were only assigned 2 ERUs. Davis said maybe it was because at the time there was a proposal for a business to go in there. Voss said well it is a restaurant corner. Davis said that may be the reasoning. Lawrence said the two on the far side are only 1 ERU. Davis said this might be the most valuable corner with the exception of the one owned by CDC Properties.

DeRoche asked how did the City have ERUs assigned on the water treatment plant when the City owns it. Davis said the ERUs are assigned by the Met Council, the Met Council designation. Davis said they will be a customer of the sewer system, so that is why they have to have an ERU designation and have to pay that fee to Met Council. Voss said the original design of the plant had backwash, that is why they were assigned. Lawrence asked Met Council t will be hooked up to the City water? Davis said this is for city sewer not for water; this is the ERUs for sewer usage. He said he is guessing since they are the sewer plant that exempts them from their own rules. Voss said we are not building anything for it either. He said we are not constructing anything for that plant; it is external piping right into that system. Davis said the only thing they will do is they will pay a City SAC water fee. Lawrence said this doesn't make sense to him. If you are on a sewer line, anybody on the sewer line should have to pay a fee. Davis said but they are on their own sewer line. Lawrence said he gets the whole theory behind it but, it is East Bethel property they are buying to be in East Bethel. Anybody in East Bethel has to pay a SAC and WAC. Voss said but that it is private property. He said our charges are for our lines. Voss said he doesn't disagree that it makes sense politically for them to pay it, but technically they are not using the city's resources at all. He said we are not putting any pipe on that property. Davis said if you look at the map the pipe going along 185th is interceptor and that is what they would essentially connecting into. He said going up Buchanan and Ulysses Street is collector lines, this is city lines, and we are responsible for this.

Davis said on attachment 4 is a list of businesses on the east side of Hwy. 65 and their acreage and their property taxes.

Davis said and attachment 5 is a further breakdown of the businesses on the east side of Hwy. 65 shows an ERU assignment based on the Met Council SAC manual. These ERU assignments haven't been verified by Met Council. These are subject to change. Davis said these are ones that Craig Jochum from Hakanson Anderson Assoc. developed for us. He said we think they are really close. There may be a variation of a couple but most should be right on the money. In this area there is a total of 56 ERUs with the biggest user being Route 65 Pub & Grub restaurant. Davis said the following page is a map that keys in where the businesses are located. Lawrence asked how many that is for Pub & Grub? Davis said 13 ERUs. He said that is based on the number of seats and square footage of the building. Voss said under the notes it says "includes 75% reductions." What does that mean? Davis said he will have to check with Jochum, but he just thinks that is based on the number of seats. There is a reduction number formulated in the calculation. Voss asked it is not a reduction of ERUs? Davis said no it is not.

Davis said attachment 7 is a map that shows the locations of the properties on the east side that are within a ¼ mile of the east stub that are adjacent and that can be developed. His figures of acreage; if you start at the northernmost one which is a 40 acre tract, and proceed south (21.9 acres) owned by Able properties, 40 acres mostly wet owned by Viking Meadows and further south 4 tracts owned by Walt and Doug Osborne that total approximately 85 acres.

Davis said the map on attachment 8 is just a larger blow up of that, but it also shows within the Phase One project area on the south side T & G Land and Village Green Trailer Park owns acreage which would be available for development.

Davis said so we put together a scenario whereby on the west side we gave each of the connections, each business a 1 ERU reduction in the tables. And then based on the tax values and the increment of \$17,000 we gave them further ERU reductions appropriate to that division. Anyone that had 2 ERU reductions was automatically reduced to 1; therefore they didn't qualify for any further reductions and anyone that had 1 ERU didn't qualify for anything (only 4 properties). Davis said the biggest beneficiaries of this reduction were the theater and the bank. He said he thinks the theater got about 3.7 ERU reductions and the bank got about a little over 3 also. DeRoche asked the theater went from 37 to 27 because we are not counting that 10 acres they owned. Davis said the 37 ERUs is for the Mueller Properties, there is only 27 for the theater, but they own 5 other lots there that were valued at 2 ERUs each.

Davis said the important thing is, on whatever policy we develop; we have to make sure we have the cash flow on this. DeRoche said being the devils advocate here, if we do all the reductions, we are kind of walking on the line without making any reductions, correct? Davis said what he wanted to do was go over the different scenarios of making the reductions and how it affected the total ERUs and how it affects the cash flow on this. He said this is the next eight pages of the attachments. DeRoche said to him it would make more sense to make reductions to businesses to draw them in. He asked is this to keep the existing businesses from checking out? Davis said to him, this is working with our existing businesses. He said this is keeping the existing businesses. He is sure there are some instances where these ERU assignments, if we use the total, are going to impose some severe hardship to some of these existing businesses now. Davis said also too, he thinks it is important, in any type of economic program; you can't forget your existing businesses. He said it is a whole lot easier to retain a job than it is to recruit one and bring it in. He said if we do something for existing businesses, in the future, when we need to do something with new business and we offer them some type of incentive package, this kind of equalizes the argument. It will be very clear that we are interested in helping the people that are here.

DeRoche said he understands what you are saying, but when the figures were all put together, certain ERUs were assigned. He said he is a little confused as to why it wasn't planned to work with the other businesses prior to anything happening. DeRoche asked when they were designing it and coming up with all the figures, why they didn't take that into consideration then? He said because it is his understanding we are at a 150 ERUs the first year. DeRoche asked how many do we have to come up with the second year? Davis said that is where this whole process becomes a little bit more challenging. He said the first 2-3 years of the project we are going to be okay. Davis said but after that, if we don't get some significant development not only for 2015 and 2016, but each of the subsequent years, we are going to have some problems in meeting our bond obligations. He said there are a

couple things that can be done if we don't meet those. Davis said there is a Reserve Capacity Loan that Met Council will extend to us. He said what that does is kind of just extends our payments out. DeRoche asked with higher interest? Davis said he will have to check on that. He said those are things we are going to have to look at in 3-4 years. Davis said hopefully some of the things we are trying to lay the groundwork with now such as the EDA, business recruitment and economic development programs will bear fruit and produce some of the growth that will be needed to generate revenue to meet all of our obligations.

DeRoche said he thinks this can't be put on the back burner and then in three years have it come up. He said whether he is on the Council or not, something has to be done to deal with it. DeRoche said and rather than just leave it on the back burner something has to be done to try to come up with a resolution before it does hit. Davis said the policy he is looking at for the ERU Reduction is for existing businesses only at this point. He said it is a one time offer. Davis said and it is one that he would propose the businesses would have to exercise this option, (we will have to have an assessment hearing). They will have to get on board by this time next year. He said he thinks that is critical because it will show if we can get some of these connections and fees started by the end of next year. It greatly affects the way this thing cash flows. Our ERU cost is \$17,000, Met Council gets \$3,400 right off the top, the City SAC and WAC fee is are \$5,600 that leaves us a balance of \$8,000. That is called a lateral benefit assessment. Davis said that is an assessed cost and the way that was figured in the original figure cash flow projections by Bolton and Menk and Schunicht was this would be assessed at \$8,000 over 20 years at 4.5%. He said so that gives some financing flexibility and also some options for people to make the payments on this. Davis said in other words over half of this can be financed over 20 years at 4.5%. He said one of the other things we can look at besides ERU reduction to minimize exposure, is if you pay it off in one year; we might want to consider a lower interest rate. Or we might give you a little more ERU reduction. Some of these places, if we finance for 20 years, (it is like everything else, the whole landscape is changing), hopefully they will still be there, but some of them will probably close. Davis said then we will be involved in collecting our monies through back taxes. He said he thinks there are some things we can do with interest programs to give them incentives to pay these things off quicker. Davis said and maybe we can develop programs to partner with the local banks that they will help these people out and give them loans to provide that so they can pay that upfront as quickly as possible.

DeRoche asked the businesses on the east side, are those going to be a mandatory hookup? Davis said what we would have to do is establish a sewer district and it would be his intention that if we extend the service over there that everyone would have to hook up. Voss said that is the only way utilities work. Davis said yes, you can't exempt some. DeRoche asked what is to say we are not going to drive some of the little guys out like S & S or George's Boat? He said if it comes in and people are leasing the property and the person that owns it says, "Now that sewer and water is coming in we have to jack your payments up." DeRoche said people may say "You know that is why we left Blaine, so now we should look somewhere else." Davis said he has had two meetings with the property owners over there. He said only one person has been opposed. Davis said they are going to end up with 1 ERU. That person is going to owe \$9,000 up front and then \$8,000 will be financed at 20 years at 4.5%; (the way this is projected to be set up) \$610 per year. Lawrence asked isn't 20 years a long time? Voss said this is one of the things we need to look at, because we had originally looked at 5 years. Davis said they had talked 20 years to go with the term of the bond. Voss asked are these special assessments, so that when the property is sold they have to be paid off? Davis said he thinks that is something we can work on. Voss asked because don't most special assessments need to be paid when the property is sold? Davis

said they do and he thinks that would be more beneficial to us.

Davis said on the east side if we adopted this policy, (if you go back to the table on attachment 5) you can see notations on right side of the page, those would be the estimated ERUs for those businesses. He said only five would have more than 1 ERU, based on that policy. Davis said again, we had two meetings with this group and only one person objected. He said most all of them at the first meeting were cautiously optimistic, and at the second meeting there was a lot more interest, especially when we told them the City was considering some type of ERU Reduction Policy. Davis said we didn't promise them anything, and we also told them there would probably be some terms for financing part of it. He said their real excitement is not only the water and sewer but also that they would be getting a whole new street out of this. That really appealed to all of them. We did tell them there would be curb and gutter and storm sewer. Voss asked for the businesses on east side that you spoke to, did you talk to all of them? Davis said we talked to all but about 3 or 4 of the property owners, either by phone, e-mail or meeting.

Lawrence said the immediate problem we have is lack of users. He said and not servicing the east side would maybe bring us to the point of having financial problems faster than not servicing the east side. Voss asked how many ERUs do we have? Davis said 51 ERUs for existing users on west side. He said 60 ERUs for the vacant lots. Voss said so we are off to a start.

Davis said lets go over the cash flows. He said alternative 1 assumes we have no connections in 2012, and the 110 connections on the west side we have ½ in 2013 and ½ in 2014. Davis said this shows where this will cash flow until 2016. He said we didn't take it past there because compounding and he thinks it is just too far out in the future to try to make some analyzations. Voss asked so we are adding 50 in 2015? Davis said 55 in 2013. DeRoche said we have to pay for those whether they are there or not. Lawrence said that is the west side right? Davis said this is the west side only. He said we are going to have to meet the ERU goals that Met Council has established for us. Davis said the debt payments are taken straight from the bond payment schedule. This shows what the 55 connections would be, City SAC and WAC charge. Specials Assessments would be the money we would get back from the \$8,000 lateral benefit assessment. Davis said this is going right off the Bolton and Menk and Schunicht Report. He said the only difference is they had 75 in 2013 and 75 in 2014 and we lost the 39 because of the water treatment plant.

Lawrence said so we will be short \$176,000 in 2013. Davis said yes, we will be short \$176,000. Pierce said our bond counsel is checking to see how much in unspent bond proceeds we can leave out there. She believes what was projected was excessive. Pierce said bond counsel has said it can be used towards other infrastructure projects. DeRoche said even though we lost the ERUs for the water treatment plant, we saved 4 million dollars. Davis said yes, but you can't put the 4 million towards the bond payment. He said that is why we started looking at how we could get more ERUs and why we are looking at the east side. Davis said if we go to the east side we can get anywhere from 36-56 ERUs right off the bat. He said plus we are opening up another 140-150 acres for potential development. DeRoche said but these figures are based on we will get 150, plus in 2013 we will get 55 more. Davis said these figures are based on the assumptions that we will get those number of connections in those years. DeRoche said and in 2015 we need 200 connections. Davis said that is correct. Voss said the first 55 we have. Davis said the first 51 we have. He said and there is the possibility that we have the others too. Davis said when he says the undeveloped lots; those are in the assessed properties. He said so those can be charged. Davis said he

would hope we can come up with some kind of policy where we don't have to charge those people until they actually develop.

Lawrence asked is that the way it is typically done? Davis said it can be done any way, but this is the way it was set up here. He said anything within the Phase One was considered the assessment area. DeRoche asked rather than an ERU reduction, has it been looked at to give a tax reduction? Davis said he personally would like to avoid anything with tax breaks. Voss said the ERU Reduction is for existing businesses addresses. He said and it recognizes the businesses that were here in this area, our existing business base. Although there is no benefit to the city, they have already made investments in the City infrastructure, some have done it twice. Voss said and as Davis mentioned, we are also showing the sensitivity that we are supporting the businesses that are here and we want businesses that are here to grow. He said and it is important the existing businesses, but is even more important for the new businesses that are looking to come here that see that we recognize the existing business base and that we are doing what we can to keep that business base and strengthen it. Voss said if they are going to ask for breaks they are going to ask for infrastructure breaks, roads, generally it is not sewer and water.

Davis said at some point we might be faced with a development situation, where we have a development that is knocking it out of the park, that we may have to consider something like that. But that would be for something that is going to bring in like 300 jobs or add 5 million dollars to the tax roll. He said as far as tax breaks for existing things, he thinks it is much cleaner just to do the ERU reduction for them, keeping the policy as simple as possible. Davis said he doesn't want to have to come up with some real complicated policy. DeRoche said he thinks we have explored all avenues. He said he is all for helping the businesses. DeRoche said he is also in his mind saying that would be great if the commitment had not been made and the ERU numbers set as high as they were. He said because then there would have been something to work with.

Davis said alternative 2 shows what happens if we get connections in 2012. He said the west side and east side connections and based on the ERU Reduction Policy. Davis said if we do this we wind up with about 81 connections in 2012 and we still kept the 55 in 2013. He said if we use this scenario we get in a negative cash flow for only in 2014, and would still have a positive cash flow through 2016. Davis said we have a balloon payment in 2016 and 2017.

Davis said alternative 3 shows what would happen if we got west side connections only. He said and alternative 4 shows 66 connections on west side no ERU reductions. Davis said alternative 5 is the same thing, but adds east side connections with no ERU reductions.

Davis said the more we can generate and start in 2012 the better we are going to be. Voss said if he remembers right, we told the businesses that 2013 was the hook up and if we go to 2012 it is putting even more burden on them. He said perhaps we could have an incentive to hook up and give them a break, not significant, but some sort of break. Davis said he understands that commitment was made. He said but it will be difficult to get this all done by 2012 anyways. Davis said but certain incentives we could look at are on the financing. If someone has 1 ERU and it is projected 20 years at 4.5% and we say, "If you pay this off in one year we will charge you just what the bond interest is." Lawrence said you might have people that are encouraged to pay before they hook up. Davis said if we tell them if they pay up front and we will give them an additional ERU credit, it won't make or break this project. He said what will make or break this project is what will happen in two or three years. Lawrence said yes, we have to get the big businesses to come here, or otherwise we are in

trouble. Davis said and residential growth.

Voss said to him it comes back to how the city deals with the existing businesses and that is going to have a reflection on any business that looks at developing here. Lawrence said he thinks what is going to happen is this is showing other businesses we are working hard to bring you in and keep them, and eventually we are going to get a big store to come in. He said we are going to have to give away a lot of ERUs for them to start up. Lawrence said when Wal-Mart went into Cambridge they didn't pay one ERU to hookup. Davis said we are in a very different situation. He said they had their own existing sewer plant there. Davis said he called Jordan and they had everything lined up before they built their sewer plant. He said if we develop an ERU Reduction Policy we are developing new ground, maybe first in state.

Davis said alternative 6 hooking up east and west side both. He said alternative 7 shows if we don't get those connections until 2013.

Voss said one thing thought about for a while is maybe we are going about the ERU reduction the wrong way. He said in a way this is an economic development consideration. Voss asked do we want to have the EDA Commission consider this. He said he knows we are going to restrict this to existing businesses. Voss said there is another way for us to do this without monkeying with an ERU Reduction Policy? This is business retention. Lawrence asked what other plan would you think about? Voss said basically what we are doing is reducing cost of existing businesses to hookup to the system. He said another way to do it is to keep the cost, but have it as an economic development incentive. Voss said whether it be a grant. Lawrence asked and buffer it through the EDA? Voss said yes. He said he doesn't know if it is proper or not. Davis said he thinks it is well worth discussing, his biggest concern would be, "Where would we get the seed money to start this?" Voss said he can tell you what the problem is going to be if we do this. He said the problem is going to be how the general taxes are paying for the sewer system, but they are not paying for the sewer system, they are assisting the businesses. Lawrence said one of the things the businesses want down there is a display board that lists the business in the park down there.

DeRoche said he has talked to a lot of people on this and they said if you can avoid doing this with ERUs, avoid it. Davis said whatever we do, we set a precedent. He said there are a lot of things to explore, a lot of options. Voss said that is what got him to thinking about EDA. Vecause new businesses coming in, that is what the EDA is meant to do. He said and at times they have helped existing businesses. Lawrence asked if we got the east and west side, there are only a few areas where we have to rely on the bond money set aside. Davis said that is the term of the bond, 20 years. Lawrence asked is it okay to keep carrying the money over year after year? Davis said we only have three years to spend the bond money. Voss asked is the EDA meeting next week. Davis said yes and we can bring this up at that meeting. Voss said he thinks they should entertain it. Voss said and you talked about not reducing on the ERUs with 1, but maybe the EDA option they could do something with them too. He said he doesn't know what form it could be, but it would feel better if it came from them. Davis said since it was a one time offer, it would have a shelf life. Voss said he doesn't think it would have to be a one time offer. Davis said when he says this, it is for those that hookup in 2012. DeRoche said he looked at an example here. We earlier looked at not charging ERUs on property undeveloped, if we got in pinch what would we do? Voss said this is another example something EDA could do. He said we have these vacant lots and the EDA loans the property owner the amount for the assessment. Voss said then when the get the development they pay the EDA back. Davis said yes, we might have to set a

reasonable time frame for when they have to do this. Voss said we would only make this property more developable and valuable. DeRoche said they would be a lot more salable if they have sewer and water. Voss said and this kind of thing can be applied somewhere else.

Davis said he would like to try to establish a goal to have this done within next three months. He said we have to have the assessment hearing by next August. Davis said we can explore the EDA side of this as a partner or alternative. Voss said this would be a nice thing they could jump right into. DeRoche said it will come back to the Council any ways because the EDA has no spending power. Davis said we will bring this before the EDA and see what we can generate on that end. Lawrence said still work on your end, the ERU Reduction Policy in case the EDA doesn't generate anything in time. Davis said he is not married to one idea here, but he can foresee some participation from the EDA on this, but he can see that we may need to do some ERU reductions on this. Lawrence said he thinks it is important to hook up the east side also.

Adjourn

DeRoche made a motion to adjourn at 9:28 PM. Voss seconded; all in favor, motion carries.

Attest:

Wendy Warren
Deputy City Clerk