

## EAST BETHEL SPECIAL CITY COUNCIL MEETING

February 19, 2011

The East Bethel City Council met on February 19, 2011 at 9:30 AM for a special City Council meeting at City Hall.

MEMBERS PRESENT: Bill Boyer                      Bob DeRoche                      Richard Lawrence  
                                 Heidi Moegerle                      Steve Voss

ALSO PRESENT: Dave Schaaf, Acting City Administrator  
                                 Mark Vierling, City Attorney  
                                 Craig Jochum, City Engineer  
                                 Jack Davis, Public Works Manager

Call to Order      **The January 19, 2011 City Council meeting was called to order by Mayor Lawrence at 9:30 AM.** Lawrence said the purpose of this meeting is to finalize the City Sewer and Water project, one item.

Adopt Agenda      **Boyer made a motion to adopt the February 19, 2011 Special City Council Meeting Agenda. Moegerle seconded; all in favor, motion carries.**

Voss explained where the exits are in the building in case of a fire. Just because the building must be close to capacity.

Landform              Bob Schunicht said he has been doing this work for many years and this is the first time he  
Presentation              has said good morning when he was presenting, usually it is good evening. He said it seems  
                                 like it was just yesterday when he was making his proposal to this Council. The City is  
                                 contemplating a project from a wastewater standpoint; Met Council would build a  
                                 wastewater treatment plant, there is a water treatment facility, wells and water tower by  
                                 Highway 65 and 22 and then at the northern end of the City there are discharge RIBs.

Schunicht said there are three compelling components as follows:

- 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?

Schunicht explained Table 1 ERUs (Equivalent Residential Unit) Summary; with Ultimate Potential ERUs being 7,978 which means you can build the facilities in that area and get enough users. He said one ERU is one single family house. Schunicht said so how much money is coming in from the system, well there are potentially 8,000 ERUs and to financially make it work we have to have 4,000-5,000 ERUs. He said in this area you can build the system and you can finance yourself right inside this area.

Schunicht said this is the project that is being considered, the City project and MCES project. He said for the Cost Summary the City Project includes: Wells, Water Tower, Water Treatment Plant, Water and Sewer Piping, Land Acquisition/Easements and Indirect Costs for a subtotal of \$15,441,901. The MCES Project includes: Interceptor Sewer, Waste Water Treatment Plant, Infiltration Basins and Piping and Land Acquisition for a subtotal of

\$24,100,000. He explained that indirect costs include such things as design construction, inspections, legal, etc. Schunicht said because East Bethel is a rural growth center, Met Council is willing to invest in the City of East Bethel and their investment is about 56% of project.

Schunicht said the City projects are being funded by a series of bonds and one of the reasons they were sold in December was because of the Federal credits received. Bonds A & B had federal credits, \$18,825,000 were sold for this project. He said two 30 year bonds and one 7 year bond. Schunicht said the 7 year bond does cause some cash flow problems, early when you don't have a lot of cash coming in. Schunicht said you do have cash in the fund from the HRA, \$642,000 and \$240,000 from a 10 year no interest loan from the Equipment fund. He said you got good bids on your bonds, 1.5 % below today's market rate. Schunicht said you still have \$1.8 million dollars to help us make our way through this project and we assume that \$1.5 million will be available to help us while the connections are amping up.

Schunicht said every ten years the Metro cities go through a comp plan analysis. He said this if the fourth time he has been through this. 4<sup>th</sup> time he has been through this. Schunicht said this is the 1<sup>st</sup> time the Met Council and cities agreed on the populations. He said in 2020 they are expecting about a million more people. Schunicht said he is curious to see where they are in a few months from the census data. Schunicht said the interesting thing about this is Blaine had been growing then it dramatically slowed down. He said the data shows it filling up by 2030 and as it starts to fill up, people start to move out to other communities. He said one of the ways we track how communities are growing is the building permits issued. He showed Table 6 which showed the building permits issued for the years 2000-2010 in East Bethel, Andover, Blaine and Isanti. In 2006 the building permits really started slowly down and then fell off dramatically in 2007 and 2008 and 2009. He said there is an emerging consensus that the growth rates experienced in 2000-2003 are sustainable growth rates in the Metro Area. Schunicht said fewer lots are being built. He showed a Table with the Lot Inventories in Andover, Blaine and Isanti. Schunicht said as cities closer to the Metro Area begin to fill up, development will move out to other urban areas.

Schunicht said the next question is can you afford to do this, are you competitive. He said in Table 9 he is showing charges at connection. East Bethel would charge \$3,600 for water, \$2,000 for sewer and \$3,300 for SAC for a total of \$8,900. Andover charges \$8,420, Blaine charges \$5,550, and Isanti charges \$7,096 so you are not out of range. He said here is another number you have seen, \$17,000, that is for the lateral lines in front of businesses per ERU and it is a very good price for sewer and water and the reconstruction of street, a very good price for that. He said what the cost per year for a system is once you are connected. East Bethel is \$866, Andover is \$460, Blaine is \$296, Isanti is \$980, so your cost is on the higher side, but he wouldn't expect someone to make a decision on those costs.

Schunicht said so when it comes to the Highway 65/Viking project the risk assessment considers the following three options: 65/Viking Project with Water Treatment, 65/Viking Project without Water Treatment, and No Build. He said he is recommending you think about wants and needs. Your needs are for a wastewater treatment plant and for a place to discharge it to, distribution main. He said a want is the water treatment facility. He said he

classified this as a want as opposed to a need.

Schunicht said the alternative cost comparison figures the following for the three options: 65/Viking with Water Treatment total cost: \$15,441,901, 65/Viking without Water Treatment total cost: \$10,101,901-10,401,901 and No Build total cost \$5,263,000 to 9,683,000. These are the three options we looked at.

Schunicht said for the no build we have to redeem bonds. He said he asked a couple financial analysts to look at this because he was shocked at how much it would cost to do this. Schunicht said the first option is extraordinary redemption. He said you can pay off interest, pay off bonds and be done with it; you need bond counsel to do that. Schunicht said you are open to a lawsuit from bond counsel and it gets a little complicated.

Schunicht said with defeasance you wait until call date of bonds, pull bonds back in and pay off. He said you pay interest at high rate because of not building the project. Schunicht said then when you go out to buy back the bonds the rate can be higher.

Schunicht said in Table 12 there is a growth rate comparison with includes the comp plan, feasibility study, 75% of the feasibility study and 50% of the feasibility study. With the 50% feasibility study, in 2020 you will have 550 ERUs and 2030 1,378 ERUs.

Schunicht said the risk analysis looked at the 65/Viking project and assumed we could use the cash flow while we hooked up. We looked at the lowest annual balance and if you didn't do the water treatment plant and get those growth rates. He said the we put in the spreadsheet is we pay the bonds off as they are currently configured, but if you extend the bond that is a seven year bond, then you wouldn't be in the hole right away.

Schunicht said the MCES cost share is \$24,000,000 or 56%, Federal credits save \$2,000,000, the City got favorable bids and bond rates, the demographics support northward growth along TH 65 and East Bethel's charges and rates are in an acceptable range.

Schunicht said proceed with the 65/Viking project without the water treatment plant is Landform's recommendation. Explore options for using or redeeming the excess bond funds resulting from the reduced project. Proceed immediately with a test well to confirm the water quality at the future treatment plant site.

#### City Sewer and Water Discussion

Boyer said the feasibility study assumed the Met Council projected growth rate. He said so you are talking about 75% or 50% of this 45%. Boyer asked so what happens if the City doesn't grow this much. Schunicht said we are being very conservative. Boyer said for commercial, is 3,000 square feet one ERU. Schunicht said Target is about 60 ERUs and with groceries is 80 ERUs. Boyer said and a car wash is about 30 ERUs. Schunicht said that is a whole different thing. DeRoche said when this is all said and done, bonds all paid and done, what is the interest we will have paid. Schunicht said 14.5 million dollars. He said this is because they are over a 30 year bond. DeRoche asked can you explain the GO bonds, and how they have to be paid. Schunicht said build it and they will pay. He said that is the directive from both Councils. Schunicht said but there is a number of safety factors built in, honestly more than any other community he has seen. DeRoche said prior Council

put out to residents if you don't hook up you don't have to pay. He said if we don't have enough hook ups, the people will have to pay. Schunicht said yes, they will have to pay. Lawrence said you showed on your charts even at 50% so 20% growth rate, really low, it would take us up to 2019, or 2018 and we would still be covered, the projections show we are just barely not breaking even at that point. Schunicht said the charts assume we are making the balloon payment in 2016 and 2017 so if you take that down then that would help. Voss said the highest deficit is \$64,000, and it is covered by the HRA contingency. He said within 6 years we are up to a surplus, breaking even to him.

Voss asked about the Risk Analysis table, numbers you have in there, is that the worst case. Schunicht said this goes out 20 years. He said he believes East Bethel will want to do a water treatment plant someday. He said the analysis shows you can afford to do a water treatment plant, usually when you get around 4,000 ERUs you get to a point that want to build a plant. He said when you have enough complaints. Boyer said the reason he is curious is we already get complaints from Whispering Aspen. Schunicht said most communities have decided not to build one right away. Voss asked is that decision economic or technical. Schunicht said 90% economic. Voss said usually it depends on water quality, to him if it is really poor water quality, the technical aspect is more important. Schunicht said if you are deciding without customers. Boyer asked what happens if we find radon in the water. Schunicht said radon is in Mt. Simon. Voss said you are talking about Radium. He said there are other issues. Voss said iron and manganese that aren't enforceable by the state; you can have things that mess up your plant. He said but from a regulatory standpoint front the state you have to fix those things. Lawrence said we did a test on a well right near this. He said we treat the water at our homes. Lawrence said the businesses will treat their own water. He said when he talks to the businesses they say it doesn't matter what you send us, we are going to treat it anyways.

Jochum said the City of Otsego doesn't treat their water and they started their system in 1998, Ramsey in 1985 and Isanti started their water system in 1976 and just started treating it in 2009 because of high Radium levels. Voss said Brooklyn Park brought their plant online, they have treated water but their residents still have to do home treatment. Schunicht said it has high manganese. Boyer questioned the results on water quality from Whispering Aspen .1 for Manganese and .83 for Iron. Lawrence asked is this in the FIG. Davis said yes, and they should be comparable. Voss said we are exceeding the secondary drinking water standards at Whispering Aspen. Jochum said that is correct. Voss said but then again, they are not really standards, they are guidelines. Boyer said we are twice the manganese standards. Voss said there are so many things that can affect the water quality. He said however you do it, for the most part it can affect the water quality, sulfur is another one. Voss said when you soften the water, it is very, very complex, but you are talking about a well that doesn't get pumped. He said this well would get pumped and that does change things.

Schaaf said we looked at Apple Valley, pretty typical, had 8,000 customers they hooked up and had many wells around the City, they had iron issues, built a new treatment plant, hired a new City Administrator, and they had gotten tons of calls about the high charges for the

user fees. They had doubled their rates, but they were the same as the surrounding communities. Word to the wise.

Boyer said the prices people sell their land for is going to be determine the price that people are going to make for an investment in that land. He said so to him it is almost if they are going to pay less for the land if they have to treat their water, which is what is going to happen. Boyer said that is basic economics. He said we are just tipping the scales up and down about a water treatment plant that is going to get paid for one way or another.

DeRoche said so what you are saying is we should pay for someone's land to go up. Boyer said no what he is saying is we are going to pay for it one way or another. He said if you pay a \$100,000 an acre for land, without water treatment and it costs you \$5,000 to treat your water, now you have paid \$105,000 for that land and the City is going to tax you at the most a percentage for that land, so now we are taxing on \$95,000 instead of a \$105,000. DeRoche so your motivation is to get more taxes to the City, which is what you are saying here. Boyer said no, his motivation is this is an apples to oranges argument here money wise. Voss said if a developer comes in and looks at developing a property and City sewer and water isn't available they pay less for it if they know that they have to put septic on. He said coming in as a developer there is an expectation for quality water, do I want to deal with poor water quality is part of my decision making. Lawrence said you are talking about water quality and Schunicht and Jochum just said other communities have done this for years and years. Voss said when Otsego did this. Jochum said 1998 and Ramsey 1985. Lawrence said if surrounding communities are doing the same thing why should we not do the same thing. Voss said if our water quality is the same, fine. Lawrence said here is the chart. Voss said we are ten times higher in manganese. He said he has great water quality in at his house, but he has two houses in East Bethel that don't need water treatment.

Boyer asked why don't we drill a test well at a cost of \$6,000 and see what the water quality is. He said have Craig Jochum and Kreg Schmidt work together on this. Davis said the numbers are the numbers. He said he agrees with Schunicht's recommendation, proceed without the water treatment plant and do a test well to see if there is a radium or arsenic issue we have to deal with.

Jochum said he has the same thoughts, as far as no build that is not an option. He said the recommendations from Schunicht get the water quality at site. Jochum said you can't look at the no build as an option when you are a looking at \$9 million in liability with no way to pay for it. Lawrence said we had talked earlier if there was issues with the water, without building a plant, there were ways to deal with this. Jochum said there are some ways to deal with it such as back flushing and there are ways to deal with iron and manganese.

Schaaf said he agrees with Schunicht. He said as he was driving here from southern Blaine, he was worried, is there going to be enough connections. Schaaf said you should wait on the treatment plant until you have enough customers. He said you have to put through effort to make sure that City staff is reorganized, Economic Development staff is hired, we get connections faster, he said isn't often you start out with zero customers. Schaaf said he is most concerned about the next 10 years; we will be in a negative situation in the next 5

years.

Kreg Schmidt said Schunicht went through some good alternatives, and the water quality issue is a big one. He said getting a test well done is going to give you additional information. Schmidt said he would be happy to sit down with Craig Jochum. He said it sounds like you have severe concerns about water quality. Schmidt said we have heard a lot things said about the build. He said given the 60% /40% he thinks it would be good for you to get more information on water quality. Schmidt said he thinks we could work through the technical issues on water issues depending on the water quality results. He said he is very happy with the report results. Schmidt said the 10 year period is a critical period.

Voss said let's go back to the risk analysis table again, 75% at 20 years with water treatment. Boyer said he deals with statistics a lot at work, did you look at the past 50 years and how far off you would have to be to come up with the 50% of the 75% of the 50%. Schunicht said he thinks he said in his original part of his presentation that numbers change every day. He said people aren't disappearing, they are doing different things. Resident said they are moving in with Mom and Dad. Schunicht said he is very comfortable with the 50% number. He said he is glad he was not up in front of you in 2006. Schunicht said now we are making this in the upturn. He said he knows when he was talking to Voss he said property is starting to move, commercial people are starting to talk about doing things. Schunicht said he didn't know what he was going to say when he started this a few weeks ago. Moegerle asked is this the key economy that the state demographer was talking about. Schunicht said they have a different outlook. Millenios, they don't want a big house, they want to be close to transportation. He said there is definitely a new thought of what they are looking for. Schunicht said this is something that is very important is to engage in the market place. Moegerle asked how does that work. Schunicht said through the Council. Boyer said many councils hire Economic Development positions. Lawrence said you talked about the \$5.5 million and how they let the project and how residents might have to pay for it, this might be best way to move ahead.

Voss asked without the water plant do you want to do a test well and then make a decision of what we need to do at that time. Lawrence said we have an issue at Whispering Aspen, Castle Towers and even at Village Green. Voss said have table of what we can expect, what should happen, we can get data, get it analyzed, get a recommendation on the water treatment facility and if the data comes back and it says we need to do a water treatment facility we can deal with it them. Lawrence said then maybe we need to look at another place to drill the well. Voss said that could be a possibility. Jochum said he thinks what Voss is getting at is there is an outside change your radium levels will exceed enough that you must do water treatment. Moegerle said but you gave us five options of how to do that. Voss said some of those options are based on design. He said he is suggesting we don't cancel the water treatment facility. DeRoche said we know we need to do a test well. He said he is a numbers guy. DeRoche asked has cost overrun been built in to this. Schunicht said we have \$1.8 million to work with here. DeRoche said this is going in the peat. He said with the pipes everyone is talking about. Boyer said but Met Council is paying for that. He said they did the engineering study. DeRoche said but with the sewer project there is going to be

project overruns, is the City going to be obligated to pay for that.

Voss said he agrees if this is an unperceived condition, probably this is one of the bigger ones, and this would have to come in as a cost order if it was on us. He said but a lot of pre-investigation was done. DeRoche said as most people know he is a question kind of guy. He asked where the documentation behind the numbers was. DeRoche asked we have been accused of taking the project nonchalant. He said he has some definite concerns. DeRoche said does he think the project has to stop. He said he doesn't think it can. Schaaf said let him address some concerns, especially about the peat and piping. He said this is the Met Council. Schaaf said they said the project got rushed at the end to meet the federal deadline. He said unexpected costs would be theirs to deal with. Schaaf said it is a new concept and they are running it for us. He said what is unique to our project is we are not serving anyone. Schaaf said it seems to him we are going to have plenty of money in back to pay for it.

DeRoche asked the Reverse Osmosis what was that in here for to begin with. Schunicht said Met Council has told us they are going to drop that option. DeRoche said if it is not in writing it doesn't mean anything. Moegerle asked didn't we spend a lot of money getting this in the plans. Voss said we will need it eventually. Lawrence said we need to get back on do we want to get the test well done. Voss said Schaaf made a point that Council rushed Met Council through, your statement was that Council rushed this through. Schaaf said they told us that they hadn't focused on pipe alignment on 22 because a decision was needed at the end to qualify for the federal subsidies.

**Boyer made a motion to lift the suspensions on anything but the water treatment plant and get recommendations on water quality and go from there.** Voss said the water tower and wells were not suspended. He read the resolution. Voss said although letters were sent to the contractors we never officially suspended those projects, but we don't need to argue about it. Lawrence said it is his understanding that the Met Council would like to look at pipe placements. Voss said he has not heard that from them. Schaaf said he quoted them as saying they had not looked at them for peat. Voss said we have a contract with them and will honor that unless it has changed. Schaaf said and your point is. He said they have verbally indicated that they were open to changing the alignment of pipes; it came up because of cost, and information finding. Lawrence asked about the alignment of pipes because of the way the ground lays. Voss asked and how do you propose to get sewage from the west side of the City over Highway 65. Voss said back in the early design phases, we did look at different designs, and this was the best design, that is why it was done this way. Boyer said this was an engineering decision. Voss said this has already been decided. Boyer said if this has already been decided, then it has been. Moegerle said we had a third party look this and do a great job maybe we should have a third party look at the pipes and how they are aligned and see if they have any comments. She said our city engineer can do that. Moegerle said you just said they should get together and talk. Boyer said he doesn't have a problem with that. Voss said the new Council put the entire project on suspension six weeks ago, we had a third party review, the third party review for the most part has reaffirmed what we have done, now you want to pick apart another part of the whole system,

and have that relooked at again, this was tossed around for a long time by the engineers. Moegerle said she is just saying our city engineer hadn't had an opportunity to look at until after January 5<sup>th</sup>, same with our public works manager. Voss said you just asked for a third party to look at it. Moegerle said she said the city engineer and public works manager. DeRoche said the city engineer and public works manager should have been involved in this, don't you think. Voss said they were involved. DeRoche said no there were not. He said this is our city engineer and public works guy, this is their cup of tea, and they are going to have to work with this. DeRoche said you guys come out with all this information that we tried to show you, nothing came out until this report that actually made some sense, the last couple meetings all he has heard is what is it going to cost to cancel this, what is it going to cost to make it go, Bob came up with the numbers and that is the number we needed to make a decision, this is a big decision, a lot of money, a decision that is going to affect a lot of people. DeRoche said he has just watched this thing grow and grow and grow and this is not downtown East Bethel, there are only so many people. He said there are only so many people to dole this out to and when the taxes go up, and people are being pushed out of their house who do you think is going to have to face that. The old Council or new Council. Boyer said he is just dealing with his motion and he thinks that is what the decision needs to stay centered on.

**Lawrence seconded.** DeRoche asked shouldn't Schunicht be involved. Voss said more people should be involved. He said we can figure out the details later. Voss said we haven't made any decisions on the water treatment plant. He said we need to get the contractors going; we will have to see how they come back. Voss said they have sent letters about additional costs. He said we are still looking at property acquisitions and alignments.  
**DeRoche, nay; Boyer, Lawrence, Moegerle and Voss, aye; motion carries.**

Adjourn

**Boyer made a motion to adjourn at 11:35 AM. Moegerle seconded; all in favor, motion carries.**

Attest:

Wendy Warren  
Deputy City Clerk