



# MAYOR & COUNCIL COMMUNICATION

**DATE: May 6, 2014**  
**REGULAR**  
**ITEM #: 9 \$\$**  
**MOTION/ORDINANCE**

**AGENDA ITEM:** Amending the Lateral Benefit Assessment Calculation for Trunk Water and Sewer Mains

**SUBMITTED BY:** City Administrator

**THROUGH:** Mayor Pearson, City Council

**REVIEWED BY:** Finance Director, City Engineer

**SUGGESTED ORDER OF BUSINESS:**

- Introduction of Item ..... City Administrator
- Report/Presentation.....City Administrator
- Questions from Council to Staff..... Mayor Facilitates
- Call for Motion ..... Mayor & City Council
- Discussion..... Mayor & City Council
- Action on Motion..... Mayor Facilitates

**POLICY RECCOMENDER:** City Council via April 23<sup>rd</sup>, 2014 Special Council Meeting

**FISCAL IMPACT:** \$5800/\$2900 per affected building unit  
2014 Fiscal Impact - \$104,500 (36 properties) levy assessment on the Lake Elmo Water Main Extension Policy

**SUMMARY AND ACTION REQUESTED:** The City Council is requested to amend City Ordinance 600.06 of the Municipal Code to establish a formula for levying lateral benefit assessments for building unit (parcels) both in and out of utility areas designated by the Comprehensive Plan. (see Attached Ordinance). The motion for this action is as follows:

*“Move to approve Ordinance No. 08-108 to establish a formula for levying lateral benefit assessments for building unit (parcels) both in and out of utility areas designated by the Comprehensive Plan”*

**LEGISLATIVE HISTORY/ ANALYSIS:** In September of 2006, the City of Lake Elmo adopted 600.06 of the City Code (Ordinance No.97-177) establishing a policy to levy a lateral

benefit charge for trunk water mains to provide for the equitable financing and maintenance of the City of Lake Elmo water utility. Similarly, the City adopted Ordinance No. 97-176 which established a fee certain lateral benefit charge of \$5718. This was the last official fee certain determination of the lateral benefit charge and no indexing for inflation or a rise in costs have been factored in since 2006. In November of 2010, the City of Lake Elmo adopted a Special Assessment Policy that simplified the 2006 ordinance that states (Page 22):

“Any building unit which is served directly by an interceptor or trunk sewer and therefore requires no lateral sewer, is levied a lateral benefit assessment which is equal to the Sewer Lateral Benefit Charge as set in the latest City Fee Schedule.”

Page 24 of the Assessment Policy states:

“Any building unit which is served directly by a trunk water main and therefore requires no lateral water main is levied a lateral benefit assessment which is equal to the Water main Lateral Benefit Charge as set in the latest adopted fee schedule.”

Since 2006, the recognized lateral benefit charge has been \$5800 and has been most recently levied in the 2013 Keats Avenue water project. The 2013 Keats water project was the first time that the City Council directly dealt with installation of a water main in an area not designated for utility service. The Council (taking into consideration the length of connection lines from the street to homes setback in a rural setting) determined to assess a .5 lateral benefit assessment (\$2900) for two primary reasons: 1) pressurized fire protection was provided; 2) the potential for these lots to be subdivided if future zoning permitted it. The Council also determined that if a Keas Avenue property requested connection to city water service it would be charged the remainder of the full lateral benefit charge (\$2900) and the corresponding WAC (\$3000). Thus, a precedent has been set for the methodology for levying a lateral benefit assessment in an area designated as a non-utility area.

In the spring of 2014, the realization that the City would once again be traversing a main water line across an area non-designated for utility service surfaced in the planning for the Lake Elmo Water Main line from the Old Village to the I-94 corridor. This project would impact t36 properties along Lake Elmo Avenue currently served by private wells. This project prompted the City Council to revisit its current policy and examine the nature of lateral benefit assessments in theory, with the Council expressing three distinct views:

1. Maintain the same policy as recently employed on the Keats Avenue project – thus recognizing a minimal benefit to the property;
2. Place a stub in front of each property and charge a .5 lateral benefit assessment. If the property connects subsequent to installation then an additional .5 lateral benefit assessment and WAC will be charge;
3. Charge the full \$5800 lateral benefit assessment for properties whether they are within the utility district or not (Staff Recommended);

In reviewing the standard (and best) management practices of surrounding communities, it was found that for uniformity and cash flow purposes most utilities make no distinction when it comes to trunk water and sewer main lines run in front of a property – a full charge is assessed. This was the case in 23 / 27 communities examined. Each community, where noted, ascribed a benefit to the access to water. The benefits that were noted can be broken down into three categories: functional benefit, market benefit, and future benefit.

The current benefit ascribed to water access is a public safety benefit in that pressurized water supply is provided for fire suppression. ISO and most insurance companies recognize a benefit to the homeowner if a hydrant is within 1500 feet of the structure. A potential current benefit could be the cost of replacing a private well and reduced treatment costs of the potable water supply. The market benefit is very subjective in that most home buyers prefer hassle free, municipal water (Minneapolis MLS) – thus expanding the market base. In most suburban settings municipal services also increase the value of the home (ranging from 5-12%), but Lake Elmo assessors currently do not calculate municipal utilities in their valuation. The future benefit is the ability to hook-up to municipal water rather than drilling a new well. In addition, a future community benefit may be the preservation of surface water levels (ie White Bear Lake) and thus the value of property fronting a lake. This could be a factor in the 2014 Lake Elmo Avenue Water Main line as all 36 properties along the transmission route have private wells drawing from the aquifer that serves Lake Elmo proper, if lake levels were to drop it may be a necessity to hook up to municipal water from a deep aquifer that does not compete with the lake.

In the review of other communities, it became very clear that the \$5800 lateral benefit assessment is extremely low and does not reflect current market costs for the construction of water main lines. Most communities use the most current assessed project to set their lateral benefit assessments or at a minimum a three-year average. A handful of communities use an indexing on the last lateral benefit assessment to determine the annual assessment. In the winter of 2013-14, the City of Lake Elmo developed a project pro forma for a water project in Parkview Estates / Cardinal Ridge that resulted in an average assessment of approximately \$16,000 – which would serve as the bench mark for setting the annual lateral benefit assessment. If the fee had been annually adjusted against the standard local construction index it should be \$6954 – still well below recently calculated project costs..

Understanding that Lake Elmo is in the midst of evolving into a fully built, hydrologic efficient water utility that will serve two distinct areas almost two miles apart, a hybrid, transitional approach has been proposed to create policy in four distinct areas:

1. Establish a consistent policy for lateral benefit assessment and hook up for properties that are designated to be in utility service areas by the Comprehensive Plan;
2. Adopt a functional policy for recognizing a minimum lateral benefit assessment for properties that are not designated to be in a utility service area but may wish to hook up in the future;
3. Establish a lateral benefit assessment fee calculator that allows the City to stay attempt to catch up with the rising costs of utility installation.

**BACKGROUND INFORMATION (SWOT):**

<b>Strengths</b>	Policy is updated to reflect growth environment of the City
<b>Weaknesses</b>	Policy does not recognize that current lateral benefit assessment of \$5800 does not cover installation and O & M costs of operating a water utility.
<b>Opportunities</b>	Improve finances of a struggling water utility that will improve cash flow and eventually lead to lower water rates.
<b>Threats</b>	Policy does not prevent cross contamination possibility from adjacent private wells

**RECOMMENDATION:** Based on the aforementioned, the staff recommends and appropriate guiding motion:

*“Move to approve Ordinance No. 08-108 to establish a formula for levying lateral benefit assessments for building unit (parcels) both in and out of utility areas designated by the Comprehensive Plan”*