

City of Lake Elmo
Summary of Financing Matters Related to the Downtown Project
Finance Committee – 8/10/16
Recommending to CC 9/6/16

The Finance Committee has been discussing and reviewing many items related to the financing of the downtown project. The focus of these discussions has been to make recommendations to the city council focused on reducing the financial burden for residents that will be faced with assessments for both roads and sewer. Below is a summary of the items considered and discussed.

Assessment Policies for Phases 1 & 2

All costs and assessments for Phase 1 & 2 were combined into one project for the purposes of calculating the special assessments. This approach was deemed to be the most fair and equitable means for assessing residents for this project. This also allowed the state aid funding to be allocated equitably and applied to the project as a whole. This was recommended by the Finance Committee and adopted by the City Council.

Connection Charge Reduction for Existing Residents

Incentives could be offered to properties with existing on-site sewage treatment systems that will be required to hook up to municipal sewer in the future. Currently the fees charged are \$3,000 per SAC and \$1,000 per connection charge for a total of \$4,000 for each REC. The Finance Committee discussed options, including the amount of the incentive reduction, the possibility of lowering assessments rather than lowering SAC and connection charges, and also how this may or may not apply to those properties currently served by the city owned community sewage treatment systems commonly referred to as the 201 systems within the MUSA area. The Finance Committee felt that it was important to have the upfront SAC and Connection charges be where the discount applied to make it more visible, to allow all to benefit from the incentive equally, and to not muddle up the assessments with such an incentive. The Finance Committee recommended a reduction in the SAC and Connection Fee of 50% (currently \$2,000 per REC unit) for properties with existing on-site sewage treatment systems if those properties are connected to the municipal sewer within 1 year, and this was adopted by the City Council June 21st, 2016.

Decrease Interest Rate Add-On Charged to Residents that Elect to Defer Assessments

Currently the city policy is to charge 2% over the city's bonding rate to those residents that chose to defer payment of their assessments. This interest rate add-on is meant to cover the costs associated with the administrative functions of that deferral process. The City can decide to reduce or eliminate the additional rate of +2%. It was noted that since this add-on is a percentage of the total assessment, when the project costs and associated assessments are larger, the city receives more from this interest rate add-on to cover administrative costs than when the assessments are smaller, even though the administrative work of accounting for and tracking those assessments would be the same. The Finance Committee did not favor adjusting this rate with each project, and having the rate set differently for each project. They thought a discussion and change in policy could be brought forward, but that it should be considered a change in policy for all future projects, and should not be related solely to the old village improvements.

It is being recommended to update the special assessment policy for current residents. This recommendation being proposed effective 9/6/16 is to charge one percent above the current

bonding rate rather than the two percent currently being added to the current year bonding interest rate. One member of the Finance Committee did not agree with this recommendation.

Allow Longer Special Assessment Deferral Periods

The 2016A bond terms were 10 years for streets and 15 years for utilities. The length of the special assessment terms could be longer to help residents manage the payment of these large assessments over time. Options discussed included extending both to 20 years, or extending each +5 years which would equate to a deferral period of 15 years for streets and 20 years for utilities. The city engineer expressed some problems that could occur if the street assessments were extended to 20 years, specifically that he felt property owners could possibly be hit with another street assessment before the previous one was paid off, which would then create a situation where they would be paying off two assessments for streets at the same time. The Finance Committee consensus was to recommend that the special assessment terms be extended 5 years beyond the bond terms for the downtown project assessments which would be 15 years for streets and 20 years for utilities.

This recommendation is being proposed for approval effective 9/6/16.

Initiating a City Loan Program

Some Cities offer loan programs to help residents finance various upfront costs that residents are faced with in projects such as these. Examples like city hookup costs, costs of hiring a contractor to extend sewer lines to the house, and other costs driven by City projects to the residents. The Finance Committee discussed starting a city loan program but consensus was not to recommend this program. The Finance Committee noted that the city would incur a lot of administrative and legal costs to setup a new program like this because it would entail a thorough review of other loan programs and discussions of what would work best for Lake Elmo, drafting of loan policy documents, drafting of actual loan agreement documents, and a lot of review and work throughout the process by attorneys. The Finance Committee also did not think it was in the best interest of the city to become a bank for residents, and that many other problems with defaults and other circumstances could arise that would be problematic and costly for the city.

This is was not recommended by the Finance Committee.

Assessment Policy for Deferral of WAC & Water Connection Charges, SAC and Sewer Connection Charges

The city's current special assessment policy allows the deferral of WAC and SAC fees through special assessment for a period of 15 years. The policy does not allow the deferral of the water and sewer connection charges but those could be included as well by modifications to the policy. The WAC and SAC fees are \$3,000 each and the water and sewer connection charges are \$1,000 each.

The Finance Committee is recommending that effective 9/6/16, existing residents will be allowed to defer any connection fees due to the City. This election can be made by completing a form.

Assessment Policy for Deferral of Met Council Sewer Connection Fees

The Met-Council currently has a program which allows Commercial properties to defer up to 80% of their Met-Council SAC fees over 10 years if their SAC determination is 25 or fewer units. They have recently approved a new program which would allow a similar program for residents. If the

City chooses to participate in one or both of these programs, the City Council will need to approve applying to participate in the program. The Finance Committee is recommending that the City complete whatever paperwork necessary to participate in this Met Council Program for businesses and residents.

There was discussion as to whether the City provide this service to the residents to keep all fee deferrals together. Since this is a Met Council program, the recommendation from the Finance Committee is to leave this component with the Met Council since this is their program to administer.

Assessment Policies for Future Downtown Sewer Project Phases

The City Engineer brought forward an option of combining the project costs for Phase 1 and Phase 2 with all/or most of the future phases to provide sanitary sewer to existing residential and commercial properties to create 1 REC unit assessment amount for all properties. Based on high level cost estimating it appears that the single unit assessment amount would be several thousand less than the Phase 1 and Phase 2 unit assessment of \$13,000/REC; thereby reducing the assessment burden on the Phase 1 and Phase 2 properties. This policy would have the benefit of equalizing the sewer costs to all downtown properties rather than creating unit assessments on a project by project basis which will vary greatly (from \$6,000/REC to \$18,000/REC). The potential issue with this method is that once all properties are finally serviced the final project costs may be different than the estimates produced today. To the extent the single unit assessment does not generate sufficient funds to cover all costs, the Sanitary Sewer Enterprise Fund would need to subsidize this program. The City would need to be comfortable with this potential subsidy.

As was the case in Phases 1&2, completing future phases of the sewer would also entail street reconstruction together with street assessments. The street assessments would continue to follow the City Assessment Policy. Staff only recommends going forward with this if all future phases can be done in within a reasonable time frame to not risk large project cost changes.

This was brought forward as the last agenda item by the City Engineer.

Met-Council Decision to Grandfather City 201 Systems and Not Charge the Met Council SAC Fee

There are 4 City Septic systems (201 systems) in the old village that were built in the 70's and 80's. The majority were built with grant proceeds and the city maintains these systems, and charges the residents supported by these systems a flat monthly charge for sewer. In looking at the history of these systems and charges, those served by these systems did not pay a hookup fee to the city when they were installed, and they pay a flat monthly rate to the city for their sewer service (currently \$75 per rec unit per quarter). The Met-Council has indicated that they will waive the Met-Council SAC fee for existing 201 systems.

Based on earlier discussions between staff and the Met-Council, it was believed that the fees could be reapportioned over the project area, however, this is not the case. Per the Met Council, 201 exemptions remain with the property (by parcel ID) on which they were initially paid.