

City of Bemidji

City Council Work Session

April 25, 2005 – 5:30 p.m.

Present: Lehmann, Markeson, Hellquist, Johnson, Erickson, Downs, Meuers
Absent: None
Staff: Minke, Eischens, Freeberg, Sherman

Lehmann called the meeting to order at 5:30 p.m. stating that the purpose of the meeting was to review the proposed multi-year Capital Improvement Program (CIP) and provide some unified direction to the staff to move forward.

Minke stated that review of the CIP is the start of the budgeting process. He explained that during the last two years, the City focused on the equipment aspect and developed a realistic tool that can be used on an annual basis to project and pay for the equipment needs of the City. Minke noted that this year the focus is on streets, sanitary sewer, water system, storm sewer system and public facilities. He further noted that the purpose of this work session is to review the projects and get an understanding of when they are proposed to take place, and what is involved.

The following policy guidelines were used when completing the CIP:

1. The city will plan for capital improvements over a multi-year period of time. The CIP will directly relate to the adopted long-range plans and policies of the City. Operating funds to maintain capital improvements and to fund additional staff and service needs will be estimated and identified prior to making decisions to undertake specific capital improvements.
2. Whenever a service is an enterprise or utility based operation, the City will finance that capital improvement by revenue bonds supported by rates when possible.
3. The use of general obligation bonds will be limited to major capital construction or improvements in support of general municipal services.

Special assessments will be used for improvement projects that meet the criteria of Minnesota Statute 429. It is the intent of the City to assess the full value of the improvements to the properties that are benefited.

A list of projects by year was provided as well as a brief description of each project and estimated costs. The list included both projects within neighborhoods to maintain infrastructure (reconstructing, rehabilitating, and updating) as well as projects in areas requiring new infrastructure to accommodate the growth of the City. Project maps were displayed for years 2006, 2007, and 2008 to help show the interrelation of projects from year to year, and City Engineer Freeberg provided an overview of each project.

Minke noted that one of the objectives of the Growth Management Plan was to encourage development of water and sewer where it is appropriate. The more the City knows about what major improvements are proposed, the easier it is to work with landowners who might want City utilities for a new or existing development.

Minke suggested that the Council also have some discussion regarding issues relating to the City's assessment and connection policy. He noted that the Council has the option to authorize the assessable costs of a subsurface improvement (primarily water and sewer) to be paid as a hookup charge rather than a direct assessment against the benefited property. The connection fee is then paid at the time the connection is made according to a schedule based on the age of the septic system. Minke noted that currently there is approximately \$1.5 million of debt on future connections – some of which may never connect if the property does not develop. He noted that the cost of the city carrying that burden is mounting. Minke suggested some objectives for the Council to consider:

- Encourage extension of water/sewer to property prior to development and also extensions of water/sewer into unsewered neighborhoods where it is needed.
- Attribute the costs of the sewer/water extensions to the properties that are benefited.
- Allow for the appropriate over sizing of mains and lift stations to allow for future growth.
- Maximize the City's ability to borrow money at low interest rates and to pass that advantage along to the property owners.

The City hired a consultant earlier this year to survey the current rate structure for utilities. The consultant will be at the May 9th Council Work Session to discuss a cash flow analysis using a variety of rate scenarios to project the outcome for proposed CIP. Projects.

During the past several weeks as the City Engineer was putting together the proposed project and timing list, Eischens has been exchanging that information with the consultant to build into their cash flow work sheet. He noted that the CIP represents projects that the Engineer believes are needed based on the growth that the City is going to experience in the next several years. The consultant will put together an analysis of the City's ability to pay, based on the CIP.

Eischens noted that annual (principal and interest) bond payments from water and sewer funds is approximately \$1 million per year for the projects that we already have (water towers, trunk sewer line, South Lake Irving). He noted there is roughly \$2.5 million worth of water/sewer projects proposed for 2005, under the current connection policy. He expressed concerns that if the connection policy is not amended, the City may not have the ability to pay for connection based projects beyond 2005.

Eischens identified the following policy issues and asked the Council to begin thinking about them prior to the May 9th Work Session.

1. What does the Council want the rate structure to be in the future (what kind of rate increase is the Council comfortable with).
2. What should the connection policy be? Based on the current deferred connection policy some of the larger projects cannot be done in the time period proposed.
3. Project prioritization and timing depending on the City's ability to pay.

Lehmann suggested that the deferred connection policy which originated in 1998 needs to be reviewed. He expressed the need to meet the needs of bond payments and stated that any policy amendment should impact everyone the same – whether they are current city residents or township residents that will be annexed in five years or fifteen years.

Erickson supported the need for an amendment to the assessment policy that would require all benefited property owners to begin paying the assessment when the improvement is complete. She suggested deleting that part of the deferral. Whether or not the property owner connects to the system at that time should be a separate matter and may be based on the age of the septic or well. She expressed the need for the Council to take action as quickly as possible and noted that this issue would have an impact on her future decisions in terms of whether to support a project or vote against it. She suggested that future project feasibility reports include information on how many properties will be required to begin paying when the project is complete and how many will be deferred to some future year.

Discussion followed regarding the current 8% interest rate charged on assessments. Minke expressed the need for a policy that encourages property owners to connect to water & sewer and suggested that the City may be able to make that more inviting if we use our ability to borrow money at a lower rate and pass it along to the property owner.

Erickson favored the 8% rate, noting that it encourages property owners to borrow the money from a bank at a lower rate and pay the city in total rather than in increments over a 15-year period.

Minke noted that some people do not have the capacity to borrow money from a bank and are therefore stuck at the 8%.

Council members will resume discussion regarding the assessment policy at the May 9th work session.

Adjourn

Motion by Downs, second by Hellquist, to adjourn the meeting. Meeting adjourned at 6:50 p.m.

Respectfully submitted,

Shirley Sherman, City Clerk