

BEMIDJI CITY COUNCIL
Special Work Session Agenda
Monday, September 29, 2014

City Hall
Conference Room
5:30 P.M.



1. CALL TO ORDER / ROLL CALL

2. TRAVEL AUTHORIZATION – MAYORS FOR MUNICIPAL ROADS – ST. CLOUD, 10/1/2014 – MAYOR ALBRECHT

3. CIP/UTILITY CASH FLOW ANNUAL UPDATE – FINANCE DIRECTOR

4. DISCUSS PROPOSED LAND PRICING – LAKE N WOODS REALTY

5. ADJOURNMENT

NOTE: All cellular telephones, pagers and BlackBerry devices to be switched to a non-audible function during Council and Committee meetings.

Kay Murphy

From: Rita Albrecht
Sent: Friday, September 19, 2014 12:20 PM
To: Kay Murphy; John Chattin
Subject: FW: Next meeting of the 84% Coalition

Here is the Oct. Meeting info.

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Rita C. Albrecht, Mayor  
City of Bemidji  
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Bemidji, MN 56601

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**From:** Coleman, Chris (CI-StPaul) [chris.coleman@ci.stpaul.mn.us]  
**Sent:** Thursday, September 18, 2014 10:04 AM  
**To:** Coleman, Chris (CI-StPaul)  
**Subject:** Next meeting of the 84% Coalition

Dear Mayors,

Thanks to all of you who participated in our kickoff conference call for the 84% Coalition: Mayors for Municipal Roads on August 28. We had a great conversation and engagement from Mayors across the state. At the end of our call, Mayor Froehlich and I challenged all of us to meet with our local area chambers of commerce to begin conversations about the importance of new funding for city streets. To start off from our next meeting we'll ask you to talk about how those conversations went.

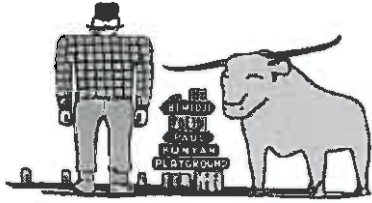
**Our next meeting is scheduled for Wednesday, October 1, 2014, 10:00 a.m. to 1:00 p.m. at the River's Edge Convention Center, 10 – 4<sup>th</sup> Avenue South, Saint Cloud - Herberger Suite, 2nd floor.** We have a very full agenda for the day that should give us a strong platform to develop our recommendations. We'll hear from Minnesota Department of Transportation Commissioner Charles Zelle, State Senator Scott Dibble, and Margaret Donahoe from the Transportation Alliance as well as a city finance manager on the challenges of local cost participation.

The League of Minnesota Cities has generously offered to provide us with lunch. **Please confirm your attendance to Katie Knutson at [Katie.knutson@ci.stpaul.mn.us](mailto:Katie.knutson@ci.stpaul.mn.us) or 651-266-8519  by Wednesday, September 24, 2014.**

We encourage you to bring your ideas and strategies to the meeting. Together we'll put together a robust menu of options from which we can build our locally preferred solutions at our 3<sup>rd</sup> meeting.

We look forward to seeing you on October 1<sup>st</sup>!

Sincerely,



*City of Bemidji*

## **Finance Office**

### **Memorandum**

**To:** Honorable Mayor and City Council  
**From:** Ron Eischens, Finance Director *RE*  
**Date:** September 29, 2014  
**RE:** Utility Cash Flow Annual Update

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#### **Background:**

The purpose of this work session is to review projected financial results and related assumptions on City utility funds, which include water, sanitary sewer, storm water and refuse. The City utilizes the consulting firm Public Financial Management (PFM) to update our cash flows based on information provided by staff. As part of this process, staff raise certain policy issues for council discussion and direction.

Supporting documentation includes the following:

1. Public Utilities Funds Cash Flow Projections prepared by PFM
2. State Statute 103G.291 regarding water conservation rates
3. League of MN Cities information on City authority to regulate well drilling

Item # 1 above represents actual and projected financial activity for City utility funds and is updated annually. The projections incorporate operating revenues, expenses, debt service and capital projects.

Projections include the following major assumptions:

- **Water Consumption** – the five year average is 421 million gallons. However, with the winter freeze issue this year, staff estimate 394 million gallons will be billed for 2014. The implementation of state mandated water conservation rates (discussed later) may reduce future consumption which staff estimate at 5%, reducing consumption to 400 million gallons. Sewer consumption is less than water due to sprinkling meters not contributing to sanitary sewer flow.
- **Proposed Rate adjustments** - 3% sewer increase for 2015, no storm water rate increases. Refuse and water adjustments are discussed later.
- **Expense growth** - 3% annual increases for 2016 to 2019
- **Birchmont Drive Assessments** – no additional City contribution to this project are included in the projections

## Projection Results

### **Sewer Fund**

The cold winter temperatures are projected to decrease gallons sold for 2014. Despite this reduction, due to the fixed rate increases implemented in January, the sewer fund is projected to generate \$2.8 million of revenue for 2014. Capital improvement projects totaling \$4.3 million over the next five years reduce sewer reserves to \$3.3 million by 2019. In summary, operating results and ending cash reserves are appropriate for the sewer fund.

### **Water Fund**

Reduced gallons sold in 2014 due to winter temperatures caused a slight decrease in revenue. This combined with higher operating costs resulted in lower operating income. Mandated water conservation rates for 2015 is projected to reduce water consumption to 400 million gallons, which is the intent of the state law change. This reduction in consumption keeps revenue flat, which coupled with rising expenses, reduces future operating income. Capital improvement projects totaling \$5.1 million over the five year period, combined with lower operating income, reduces cash reserves to \$1.8 million. This cash reserve amount is considered adequate.

### **Storm Water**

With no projected rate increases for the next five years, revenues will be constant other than a slight increase of \$7,500 in 2015 and 2016 due to annexation of Northern Township. With new storm water regulations to comply with, operating expenses and capital costs will increase. Storm water operating profits remain healthy over the next five years with cash reserves ending adequately at \$513,000.

## Refuse

Refuse operations are profitable over the next five years. In July 2015 these projections include adding a full-time City utility worker to handle the additional work related to annexation. This position will be allocated between various utility funds when hired, but for purposes of this presentation, all costs have been included in refuse.

Current City rates are \$11.61 for a 65 gallon container or \$13.72 for a 95 gallon plus related sales tax. Waste Management rates are \$13.20 per month for both sizes. Staff recommend reducing the City rate on 95 gallon cans to \$13.20 while increasing the 65 gallon rate to \$12.00 per month. This change generates the same level of revenue. Annexation on July 1, 2015 is projected to add \$5,000 in new revenue and another \$5,000 in 2016. Refuse cash reserves at the end of 2019 are projected at \$495,000.

## Summary

The utility funds have \$7.4 million of outstanding debt with annual payments of \$795,000. This debt was used to construct or improve the City's utility infrastructure. These projections indicate cash reserves decreasing from \$7.4 million in 2014 to \$6.1 million by 2019. The primary reason for this decline is the \$12.6 million in utility capital costs. Despite the reduction in cash, utility reserves are considered adequate by 2019.

## Policy Issues

Water usage rate structure – All water customers currently pay \$3.35 per 1,000 gallons regardless of the amount of water they consume. In other words, the single family home owner pays the same rate as a large commercial user even though the home owner consumes much less water.

As mentioned last year during this presentation, the state of Minnesota requires a structure charging higher rates to customers using larger amounts of water. This law change is effective January 1, 2015 for Bemidji. The state is mandating this change to limit the huge spike in summer water usage. In most communities, the summer water use is two to three times winter use because of sprinkling, car washing, pools and other outdoor activities. The intent is to target reduction of nonessential water use.

City utility customers break down as follows:

- 4,000 total meters
  - **3,600 meters** (90%) use less than 10,000 gallons per month
    - Primarily single family homeowners
  - **300 meters** (7%) use 10,000 to 50,000 gallons per month
    - Primarily small businesses
  - **100 meters** (3%) use over 50,000 gallons per month
    - Primarily large businesses and tax-exempt property owners

Rate increases between various levels of water use range between 10% and 100% based on what other cities have done, with a minimum of 25% increases recommended. Staff recommend the following water rate structure for 2015 to comply with state law requirements:

| <u>Consumption per month</u> | <u>Usage Rate</u>          |
|------------------------------|----------------------------|
| 0 to 10,000 gallons          | \$3.35 (same as 2014 rate) |
| 10,001 to 50,000 gallons     | \$3.85 (15% increase)      |
| Over 50,000 gallons          | \$4.62 (20% increase)      |

The impact to customers of the above rate structure is projected below:

| <u>Customer</u>      | <u>1,000 gallons of Consumption</u> | <u>2015 Water Increase</u> |
|----------------------|-------------------------------------|----------------------------|
| Home Owner           | 10                                  | 0%                         |
| Fast Food Restaurant | 50                                  | 12%                        |
| Grocery Store        | 100                                 | 25%                        |
| Apartment Building   | 200                                 | 31%                        |
| BSU – Walnut Hall    | 500                                 | 35%                        |
| Hospital             | 1,500                               | 37%                        |

The recommended rate structure places a larger burden on customers using more water. Keep in mind 75% of water consumption is done by 10% of our customers. Residential homeowners, representing 90% of customers, consume 25% of the water.

**Private Wells**- Currently, property owners can install their own well for irrigation purposes without City approval. An impact of the water conservation rate structure will be the desire to install private irrigation wells. This creates risks to public health and safety, can affect the surrounding environment, can affect city water supplies and leave city water utilities with losses of water revenue. Recently some customers have done this and the results lowered water consumption by approximately 7 million gallons, thereby reducing water revenue. Since most utility costs are fixed, losing billable gallons has a significant negative financial impact.

Attached is a League of MN bulletin and article indicating cities have the ability to restrict or prohibit well drilling within City limits. Staff recommend the Council implement an ordinance limiting/prohibiting the drilling of wells for irrigation purposes.

**Recommendations:**

1. Approve 2015 rate adjustments as follows:
  - a. Water usage rates – see page 4
  - b. Sewer – increase usage rate by 3% to \$6.10 per thousand gallons
  - c. No increases to water or sewer fixed rates
  - d. Storm Water – no increases
  - e. Refuse – reduce rate on 95 gallon containers to \$12.20 per month plus \$1 rental, for total of \$13.20. Increase 65 gallon rate to \$11 plus \$1 rental for a total of \$12.00 per month
2. Direct staff to prepare an ordinance to limit/prohibit the drilling of private wells within City limits for irrigation purposes

**City of Bemidji, Minnesota**  
Public Utilities Enterprise Funds- Sewer Fund

EXHIBIT 1

|                                          | Audited<br>FY Ending<br>12/31/2013 | Budget<br>FY Ending<br>12/31/2014 | Budget<br>FY Ending<br>12/31/2015 | Projection<br>FY Ending<br>12/31/2016 | Projection<br>FY Ending<br>12/31/2017 | Projection<br>FY Ending<br>12/31/2018 | Projection<br>FY Ending<br>12/31/2019 |
|------------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| <b>SEWER DEPARTMENT:</b>                 |                                    |                                   |                                   |                                       |                                       |                                       |                                       |
| <b>SEWER RATES:</b>                      |                                    |                                   |                                   |                                       |                                       |                                       |                                       |
| WATER GALLONS SOLD                       | 342,480,000                        | 315,200,000                       | 320,000,000                       | 320,000,000                           | 320,000,000                           | 320,000,000                           | 320,000,000                           |
| OPERATING REVENUES                       | \$2,617,753                        | \$2,673,750                       | \$2,806,133                       | \$2,884,560                           | \$2,965,339                           | \$3,048,541                           | \$3,134,240                           |
| INTEREST INCOME                          | 29,466                             | 46,443                            | 43,396                            | 41,447                                | 38,905                                | 31,356                                | 31,651                                |
| SPECIAL ASSESSMENTS                      | 45,082                             | 80,546                            | 76,399                            | 72,252                                | 68,105                                | 27,583                                | 26,816                                |
| TOTAL REVENUES                           | \$2,692,301                        | \$2,800,739                       | \$2,925,929                       | \$2,998,259                           | \$3,072,348                           | \$3,107,481                           | \$3,192,707                           |
| TOTAL OPERATING EXPENSES                 | \$1,488,456                        | \$1,575,328                       | \$1,620,535                       | \$1,669,151                           | \$1,719,226                           | \$1,770,802                           | \$1,823,926                           |
| NET REVENUE FOR DEBT SERVICE             | \$1,203,845                        | \$1,225,411                       | \$1,305,394                       | \$1,329,108                           | \$1,353,123                           | \$1,336,678                           | \$1,368,781                           |
| TOTAL SEWER DEBT SERVICE                 | \$579,664                          | \$548,284                         | \$501,847                         | \$501,849                             | \$501,479                             | \$500,702                             | \$504,436                             |
| NET CASHFLOW AFTER DEBT                  | \$624,181                          | \$677,127                         | \$803,546                         | \$827,258                             | \$851,644                             | \$835,977                             | \$864,344                             |
| <b>SEWER DEBT SERVICE COVERAGE RATIO</b> | <b>2.08 x</b>                      | <b>2.23 x</b>                     | <b>2.60 x</b>                     | <b>2.65 x</b>                         | <b>2.70 x</b>                         | <b>2.67 x</b>                         | <b>2.71 x</b>                         |
| CAPITAL OUTLAYS- SEWER                   | (\$1,208,691)                      | (\$805,300)                       | (\$822,000)                       | (\$905,000)                           | (\$1,430,000)                         | (\$630,000)                           | (\$518,000)                           |
| OTHER ADJUSTMENTS                        | \$1,566,752                        | (\$176,490)                       | (\$176,490)                       | (\$176,490)                           | (\$176,490)                           | (\$176,490)                           | (\$176,490)                           |
| BOND PROCEEDS                            | \$0                                | \$0                               | \$0                               | \$0                                   | \$0                                   | \$0                                   | \$0                                   |
| ENDING CASH BALANCE                      | \$4,644,304                        | \$4,339,641                       | \$4,144,697                       | \$3,890,465                           | \$3,135,619                           | \$3,165,105                           | \$3,334,959                           |
| <b>CASH AS % OF NET O&amp;M</b>          | <b>312%</b>                        | <b>275%</b>                       | <b>256%</b>                       | <b>233%</b>                           | <b>182%</b>                           | <b>179%</b>                           | <b>183%</b>                           |



**City of Bemidji, Minnesota**  
Public Utilities Enterprise Funds- Water Fund

EXHIBIT 2

|                                          | Audited<br>FY Ending<br>12/31/2013 | Budget<br>FY Ending<br>12/31/2014 | Budget<br>FY Ending<br>12/31/2015 | Projection<br>FY Ending<br>12/31/2016 | Projection<br>FY Ending<br>12/31/2017 | Projection<br>FY Ending<br>12/31/2018 | Projection<br>FY Ending<br>12/31/2019 |
|------------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| <b>WATER DEPARTMENT:</b>                 |                                    |                                   |                                   |                                       |                                       |                                       |                                       |
| <b>WATER RATES:</b>                      |                                    |                                   |                                   |                                       |                                       |                                       |                                       |
| WATER GALLONS SOLD                       | 428,100,000                        | 394,000,000                       | 400,000,000                       | 400,000,000                           | 400,000,000                           | 400,000,000                           | 400,000,000                           |
| OPERATING REVENUES                       | \$1,862,275                        | \$1,754,177                       | \$1,820,580                       | \$1,872,632                           | \$1,926,234                           | \$1,981,434                           | \$2,038,279                           |
| INTEREST INCOME                          | 20,963                             | 19,463                            | 20,300                            | 18,231                                | 14,705                                | 17,100                                | 20,314                                |
| SPECIAL ASSESSMENTS                      | 32,071                             | 60,762                            | 57,634                            | 54,506                                | 51,377                                | 20,809                                | 20,230                                |
| TOTAL REVENUES                           | \$1,915,309                        | \$1,834,402                       | \$1,898,514                       | \$1,945,369                           | \$1,992,317                           | \$2,019,344                           | \$2,078,823                           |
| TOTAL OPERATING EXPENSES                 | \$542,854                          | \$608,120                         | \$633,620                         | \$652,629                             | \$672,207                             | \$692,374                             | \$713,145                             |
| NET REVENUE FOR DEBT SERVICE             | \$1,372,455                        | \$1,226,282                       | \$1,264,894                       | \$1,292,740                           | \$1,320,109                           | \$1,326,970                           | \$1,365,678                           |
| TOTAL WATER DEBT SERVICE                 | \$444,735                          | \$231,874                         | \$173,102                         | \$173,649                             | \$173,942                             | \$173,939                             | \$173,635                             |
| NET CASHFLOW AFTER DEBT                  | \$927,720                          | \$994,408                         | \$1,091,791                       | \$1,119,091                           | \$1,146,167                           | \$1,153,031                           | \$1,192,044                           |
| <b>WATER DEBT SERVICE COVERAGE RATIO</b> | <b>3.09 x</b>                      | <b>5.29 x</b>                     | <b>7.31 x</b>                     | <b>7.44 x</b>                         | <b>7.59 x</b>                         | <b>7.63 x</b>                         | <b>7.87 x</b>                         |
| CAPITAL OUTLAYS- WATER                   | (\$119,385)                        | (\$734,000)                       | (\$1,122,000)                     | (\$1,295,000)                         | (\$730,000)                           | (\$655,000)                           | (\$1,283,000)                         |
| OTHER ADJUSTMENTS                        | (\$2,514,509)                      | (\$176,668)                       | (\$176,668)                       | (\$176,668)                           | (\$176,668)                           | (\$176,668)                           | (\$176,668)                           |
| BOND PROCEEDS                            | \$0                                | \$0                               | \$0                               | \$0                                   | \$0                                   | \$0                                   | \$0                                   |
| ENDING CASH BALANCE                      | \$1,946,256                        | \$2,029,996                       | \$1,823,119                       | \$1,470,542                           | \$1,710,041                           | \$2,031,404                           | \$1,763,780                           |
| <b>CASH AS % OF NET O&amp;M</b>          | <b>359%</b>                        | <b>334%</b>                       | <b>288%</b>                       | <b>223%</b>                           | <b>254%</b>                           | <b>293%</b>                           | <b>247%</b>                           |

**City of Bemidji, Minnesota**  
Public Utilities Enterprise Funds- Storm Water Fund

EXHIBIT 3

|                                                | Audited<br>FY Ending<br>12/31/2013 | Budget<br>FY Ending<br>12/31/2014 | Budget<br>FY Ending<br>12/31/2015 | Projection<br>FY Ending<br>12/31/2016 | Projection<br>FY Ending<br>12/31/2017 | Projection<br>FY Ending<br>12/31/2018 | Projection<br>FY Ending<br>12/31/2019 |
|------------------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| <b>STORM WATER DEPARTMENT:</b>                 |                                    |                                   |                                   |                                       |                                       |                                       |                                       |
| <b>STORM WATER RATES:</b>                      |                                    |                                   |                                   |                                       |                                       |                                       |                                       |
| OPERATING REVENUES                             | \$1,191,669                        | \$1,185,879                       | \$1,203,379                       | \$1,210,879                           | \$1,210,879                           | \$1,210,879                           | \$1,210,879                           |
| INTEREST INCOME                                | 5,792                              | 2,376                             | 4,868                             | 5,679                                 | 3,674                                 | 4,201                                 | 4,686                                 |
| SPECIAL ASSESSMENTS                            | <u>3,104</u>                       | <u>0</u>                          | <u>0</u>                          | <u>0</u>                              | <u>0</u>                              | <u>0</u>                              | <u>0</u>                              |
| TOTAL REVENUES                                 | \$1,200,565                        | \$1,188,255                       | \$1,208,247                       | \$1,216,558                           | \$1,214,553                           | \$1,215,080                           | \$1,215,565                           |
| TOTAL OPERATING EXPENSES                       | \$99,864                           | \$190,997                         | \$149,715                         | \$154,206                             | \$158,833                             | \$163,598                             | \$168,506                             |
| NET REVENUE FOR DEBT SERVICE                   | \$1,100,701                        | \$997,258                         | \$1,058,532                       | \$1,062,351                           | \$1,055,721                           | \$1,051,483                           | \$1,047,060                           |
| TOTAL STORM WATER DEBT SERVICE                 | <u>\$120,008</u>                   | <u>\$119,312</u>                  | <u>\$119,840</u>                  | <u>\$120,219</u>                      | <u>\$120,421</u>                      | <u>\$120,419</u>                      | <u>\$120,209</u>                      |
| NET CASHFLOW AFTER DEBT                        | \$980,693                          | \$877,946                         | \$938,692                         | \$942,133                             | \$935,299                             | \$931,063                             | \$926,851                             |
| <b>STORM WATER DEBT SERVICE COVERAGE RATIO</b> | <b>9.17 x</b>                      | <b>8.36 x</b>                     | <b>8.83 x</b>                     | <b>8.84 x</b>                         | <b>8.77 x</b>                         | <b>8.73 x</b>                         | <b>8.71 x</b>                         |
| CAPITAL OUTLAYS- STORM WATER                   | (\$247,335)                        | (\$335,440)                       | (\$500,000)                       | (\$785,000)                           | (\$525,000)                           | (\$525,000)                           | (\$525,000)                           |
| OTHER ADJUSTMENTS                              | (\$797,306)                        | (\$293,308)                       | (\$357,590)                       | (\$357,590)                           | (\$357,590)                           | (\$357,590)                           | (\$357,590)                           |
| BOND PROCEEDS                                  |                                    |                                   |                                   |                                       |                                       |                                       |                                       |
| ENDING CASH BALANCE                            | \$237,591                          | \$486,789                         | \$567,891                         | \$367,433                             | \$420,143                             | \$468,616                             | \$512,877                             |
| <b>CASH AS % OF NET O&amp;M</b>                | <b>238%</b>                        | <b>255%</b>                       | <b>379%</b>                       | <b>238%</b>                           | <b>265%</b>                           | <b>286%</b>                           | <b>304%</b>                           |

**City of Bemidji, Minnesota**  
Public Utilities Enterprise Funds- Refuse Fund

EXHIBIT 4

|                                           | Audited<br>FY Ending<br>12/31/2013 | Budget<br>FY Ending<br>12/31/2014 | Budget<br>FY Ending<br>12/31/2015 | Projection<br>FY Ending<br>12/31/2016 | Projection<br>FY Ending<br>12/31/2017 | Projection<br>FY Ending<br>12/31/2018 | Projection<br>FY Ending<br>12/31/2019 |
|-------------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| <b>REFUSE DEPARTMENT:</b>                 |                                    |                                   |                                   |                                       |                                       |                                       |                                       |
| <b>OPERATING REVENUES</b>                 | \$391,796                          | \$382,000                         | \$387,500                         | \$392,695                             | \$392,896                             | \$393,103                             | \$393,316                             |
| INTEREST INCOME                           | 5,235                              | 5,876                             | 6,987                             | 7,415                                 | 7,740                                 | 4,990                                 | 5,134                                 |
| SPECIAL ASSESSMENTS                       | 0                                  | 0                                 | 0                                 | 0                                     | 0                                     | 0                                     | 0                                     |
| <b>TOTAL REVENUES</b>                     | \$397,031                          | \$387,876                         | \$394,487                         | \$400,110                             | \$400,635                             | \$398,093                             | \$398,450                             |
| <b>TOTAL OPERATING EXPENSES</b>           | \$149,683                          | \$167,971                         | \$223,971                         | \$263,890                             | \$271,807                             | \$279,961                             | \$288,360                             |
| <b>NET CASHFLOW</b>                       | \$247,348                          | \$219,905                         | \$170,516                         | \$136,220                             | \$128,829                             | \$118,132                             | \$110,090                             |
| <b>REFUSE DEBT SERVICE COVERAGE RATIO</b> | n/a                                | n/a                               | n/a                               | n/a                                   | n/a                                   | n/a                                   | n/a                                   |
| <b>CAPITAL OUTLAYS- REFUSE</b>            | (\$197,124)                        | (\$5,000)                         | (\$24,000)                        | \$0                                   | (\$300,000)                           | \$0                                   | (\$25,000)                            |
| <b>OTHER ADJUSTMENTS</b>                  | (\$42,961)                         | (\$103,756)                       | (\$103,756)                       | (\$103,756)                           | (\$103,756)                           | (\$103,756)                           | (\$103,756)                           |
| <b>BOND PROCEEDS</b>                      |                                    |                                   |                                   |                                       |                                       |                                       |                                       |
| <b>ENDING CASH BALANCE</b>                | \$587,584                          | \$698,733                         | \$741,493                         | \$773,957                             | \$499,030                             | \$513,406                             | \$494,740                             |
| <b>CASH AS % OF NET O&amp;M</b>           | 393%                               | 416%                              | 331%                              | 293%                                  | 184%                                  | 183%                                  | 172%                                  |

## 2013 Minnesota Statutes

### **103G.291 PUBLIC WATER SUPPLY PLANS; APPROPRIATION DURING DEFICIENCY.**

**Subdivision 1. Declaration and conservation.** (a) If the governor determines and declares by executive order that there is a critical water deficiency, public water supply authorities appropriating water must adopt and enforce water conservation restrictions within their jurisdiction that are consistent with rules adopted by the commissioner.

(b) The restrictions must limit lawn sprinkling, vehicle washing, golf course and park irrigation, and other nonessential uses, and have appropriate penalties for failure to comply with the restrictions.

**Subd. 2. Modification of appropriation for noncompliance.** Disregard of critical water deficiency orders, even though total appropriation remains less than that permitted, is adequate grounds for immediate modification of a public water supply authority's water use permit.

**Subd. 3. Water supply plans; demand reduction.** (a) Every public water supplier serving more than 1,000 people must submit a water supply plan to the commissioner for approval by January 1, 1996. In accordance with guidelines developed by the commissioner, the plan must address projected demands, adequacy of the water supply system and planned improvements, existing and future water sources, natural resource impacts or limitations, emergency preparedness, water conservation, supply and demand reduction measures, and allocation priorities that are consistent with section 103G.261. Public water suppliers must update their plan and, upon notification, submit it to the commissioner for approval every ten years.

(b) The water supply plan in paragraph (a) is required for all communities in the metropolitan area, as defined in section 473.121, with a municipal water supply system and is a required element of the local comprehensive plan required under section 473.859. Water supply plans or updates submitted after December 31, 2008, must be consistent with the metropolitan area master water supply plan required under section 473.1565, subdivision 1, paragraph (a), clause (2).

(c) Public water suppliers serving more than 1,000 people must encourage water conservation by employing water use demand reduction measures, as defined in subdivision 4, paragraph (a), before requesting approval from the commissioner of health under section 144.383, paragraph (a), to construct a public water supply well or requesting an increase in the authorized volume of appropriation. The commissioner of natural resources and the water supplier shall use a collaborative process to achieve demand reduction measures as a part of a water supply plan review process.

(d) Public water suppliers serving more than 1,000 people must submit records that indicate the number of connections and amount of use by customer category and volume of water unaccounted for with the annual report of water use required under section 103G.281, subdivision 3.

(e) For the purposes of this section, "public water supplier" means an entity that owns, manages, or operates a public water supply, as defined in section 144.382, subdivision 4.

**Subd. 4. Demand reduction measures.** (a) For the purposes of this section, "demand reduction measures" means measures that reduce water demand, water losses, peak water demands, and nonessential water uses. Demand reduction measures must include a conservation rate structure, or a uniform rate structure with a conservation program that achieves demand reduction. A "conservation rate structure" means a rate structure that encourages conservation and may include increasing block rates, seasonal

rates, time of use rates, individualized goal rates, or excess use rates. If a conservation rate is applied to multifamily dwellings, the rate structure must consider each residential unit as an individual user.

(b) To encourage conservation, a public water supplier serving more than 1,000 people must implement demand reduction measures by January 1, 2015.

**History:** 1990 c 391 art 7 s 31; 1993 c 186 s 6; 2007 c 131 art 1 s 57; 2008 c 363 art 5 s 20,21; 2012 c 150 art 1 s 2,3

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## State Confirms City Authority to Regulate Well Drilling

**Cities have the ability to restrict or prohibit the drilling of wells in city boundaries through a specific ordinance or the city zoning code.**

*(Published Oct 13, 2010)*

After several months of communication and discussion with the League and other parties about the legal basis for city authority, the Minnesota Department of Health (MDH) has agreed that that no more letters will go out from the department challenging city authority to regulate wells by ordinance or through city zoning code. This is a dramatic change from previous practice.

Over the past 20 years, cities, well drillers, and MDH have often disagreed about city statutory authority to prohibit or restrict well drilling by ordinance. The League has long argued that cities have specific and long-standing statutory authority to regulate wells and water supplies in city boundaries. (*Minnesota Statutes, section 412.221, subdivision 11*) ([Link to: https://www.revisor.mn.gov/statutes/?id=412.221#stat.412.221.11](https://www.revisor.mn.gov/statutes/?id=412.221#stat.412.221.11))

Cities may also regulate where wells are located in a city, if at all, through zoning as established in both statute and case law. (*Minnesota Statutes, section 465.357, subdivision 1*) ([Link to: https://www.revisor.mn.gov/statutes/?id=462.357#stat.462.357.1](https://www.revisor.mn.gov/statutes/?id=462.357#stat.462.357.1))

However, MDH is given specific powers over technical aspects of constructing wells, the licensing of well drillers, and sealing wells.

This issue became more controversial over the past year as cities began receiving letters from the state demanding that they cease enforcement of ordinances restricting well drilling. Many property owners within city boundaries have wanted to drill their own irrigation wells within municipal water utility service areas to avoid paying city utility rates, especially once water conservation rate structures and summer water use requirements were applied, as required by the state Legislature.

This recognition of city authority by MDH means that cities may continue to adopt and enforce ordinances restricting or prohibiting well drilling within their jurisdiction. Cities do not, however, have the authority to regulate the construction, maintenance, or sealing of wells. There are also wells used for monitoring, dewatering for pollution cleanup, and other purposes that likely will still be allowed in appropriate circumstances. The League will work with MDH to provide guidance to cities on how best to craft ordinances related to wells.

**Read the current issue of the Cities Bulletin** ([Link to: http://www.lmc.org/page/1/cities-bulletin-newsletter.jsp](http://www.lmc.org/page/1/cities-bulletin-newsletter.jsp))

### Your LMC Resource

**Contact Craig Johnson**

IGR Representative

(651) 281-1259 or (800) 925-1122

[cjohnson@lmc.org](mailto:cjohnson@lmc.org) ([Link to: mailto:cjohnson@lmc.org](mailto:cjohnson@lmc.org))



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# LMC CODIFICATION SERVICE

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## Bloggers

The information in this blog is not intended to be legal advice. Postings are for informational purposes only and cannot replace specific legal advice from an attorney.

MONDAY, FEBRUARY 14, 2011

## Hot topic: Can cities regulate private wells?



*Let's talk about wells and city*

*water.* Does your city provide water to the community?

What if one of

the bigger businesses in your city decides to drill their own well, not to use for drinking water (bringing up that word I can never remember how to pronounce – potable, meaning drinkable) but to wash cars or clean equipment? What if, to save money, all the townhouse associations in your city want to drill their own private wells and have the greenest grass on the street?

**What can cities do about it?** Since 1949 cities have had authority to regulate “the use of wells, cisterns, reservoirs, waterworks, and other means of water supply” in city boundaries. [Minn. Stat. 412.221](#), subd. 11. This authority includes the power to prohibit private wells in a city.

Zoning law provides yet more authority for cities to prohibit private wells or to prescribe areas of the city where private wells may be located on a parcel of property. [Minn. Stat. § 462.357](#), subd. 1. City



A MSBA Top 25 Minnesota Blawg for 2010!

FOLLOWERS

zoning authority is broad and certainly contemplates regulation of structures including private wells.

**Is this news?** Yes. In the past few years, cities were receiving letters and calls from the Minnesota Department of Health (MDH) questioning city authority to prohibit or regulate private wells used for irrigation or anything other than drinking water. The confusion stems from laws passed in 1989 that give MDH the authority to regulate the construction, repair and sealing of wells. [Minn. Stat. § 103J.111](#). This '89 law surely preempts city regulation of these activities – but it does not impinge on a city's ability to prohibit or regulate well drilling in city boundaries. Lawyers love to split hairs but here we say yes to both city and state regulation. In short, MDH only says HOW to install a well assuming there can be one, and whether there can be one or where a well might be allowed in a city is a city matter.

**Why does this matter?** Minnesota has more freshwater than any of the other contiguous 48 states.[1] But the supply is not endless. City water systems must protect groundwater supplies and conserve water resources. If all or even a few of the businesses or townhouse associations in your city drill their own wells and use many gallons of water it will quickly cause problems for city water systems.

**So what should cities do to protect local water supplies and infrastructure?** To protect your city water supply and system, pass an ordinance that deals with private wells. Work with your city attorney to include wells used for irrigation, sprinkling or other uses, not just regulating wells for drinking water. The statutes and case law make it clear that cities have authority to regulate the use of wells to the extent of prohibiting them, and requiring the property owner connect to the city's water system in the interest of health safety and welfare. But remember, the limited tasks of constructing, repairing, and sealing the well are subject to MDH regulatory authority.

[1] Minnesota Water Sustainability Framework, University of Mn, 2009.

POSTED BY JEANETTE BEHR AT 1:01 PM 

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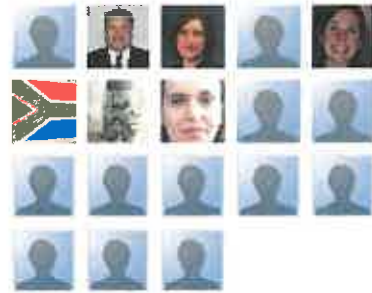
LABELS: CITY ORDINANCE WELLS WATER REGULATE HEALTH ZONING LOCAL CISTERNS IRRIGATION SPRINKLING

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2 COMMENTS:



**Jessica Cook** March 18, 2011 at 7:59 AM

Conservation water rates (see March 14th blog) have been one factor causing larger water users to pursue private wells. Many cities have historically used their water rates as an economic development incentive and give large industrial users a reduced rate. The philosophy has been that the more you use, the cheaper it is per gallon to deliver the water. Now the law requiring conservation rates has tipped that premise on its head.

Besides ordinances prohibiting private wells, we've had some success in setting rates that discourage the practice. Commercial and industrial users can have lower rates than others, as long as the commercial water rates are structure to promote conservation.

Reply



**sandhiya** July 5, 2011 at 11:17 PM

I actually enjoyed reading through this posting.Many thanks.

Hot Water Service Repair

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THE MN BASIC CODE

**VIEW A 5 MINUTE NARRATED INTRODUCTION TO THE MBC AT:**

<http://www.lmc.org/media/video/1/mnbasiccode.swf>

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LOOKING FOR A SAMPLE ORDINANCES?

**Sample Ordinances Online**

Ordinances from more than 50 Minnesota cities are available on the American Legal web site. Cities featured on this website adopted their ordinances through LMC's customized city codes service. Codes may be searched by city or subject area. These codes are available at:

[www.amlegal.com/library/mn/index.shtml](http://www.amlegal.com/library/mn/index.shtml)

### Model Ordinances Online

Model ordinances developed by the LMC can be found on numerous topics at on the League's website at: [www.lmc.org/page/1/resource-library.jsp?pageId=2096](http://www.lmc.org/page/1/resource-library.jsp?pageId=2096) in the Research Library.

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FOR QUESTIONS ABOUT THIS BLOG CONTACT ALEXIS STANGL AT [ASTANGL@LMC.ORG](mailto:ASTANGL@LMC.ORG) OR 651-281-1227. FOR MORE INFORMATION ABOUT LMC CODIFICATION SERVICES CONTACT THE LMC CODIFICATION CONSULTANT, ATTORNEY RAY BOLLHAUER AT 1-800-445-5588 OR [RBOLLHAUER@AMLEGAL.COM](mailto:RBOLLHAUER@AMLEGAL.COM).



City Manager's Office

# MEMORANDUM

**TO:** City Council  
**FROM:** John Chattin, City Manager *JMC*  
**DATE:** September 29, 2014  
**RE:** Lake-N-Woods Pricing Recommendations

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The City has contracted with Lake-N-Woods Realty to market several City and BEDA properties. Our agreement for professional services is signed and now they have proposed pricing for our parcels.

Although I am unable to assess what a reasonable selling price is, I would be comfortable with the proposed prices for the old MnDOT headquarters site and the Rako Street property. However, assessing the south shore properties is beyond any staff expertise (therefore, we hired Lake-N-Woods).

I have provided a spreadsheet showing the original advertised selling prices of the south shore lots along with parcels that have been sold. I have compared those original prices/revenues with what would be generated by the proposed prices. As you can see, we would fall about \$2.2 million short of our total land bond obligation under that proposed pricing scenario. This is the likely outcome under any pricing scenario that generates less revenue than originally proposed.

It is up to the council to approve a pricing structure for Lake-N-Woods to work with. We would hope that, with the sale of some property and additional development, we may be able to command higher prices in the future.

I anticipate that Lake-N-Woods will also cover their marketing plans for the properties at this meeting.

# Lake-N-Woods Realty, Inc.

09-14-2014

Mr. John Chattin  
City of Bemidji  
317 4<sup>th</sup> Street NW  
Bemidji, Mn 56601

John;

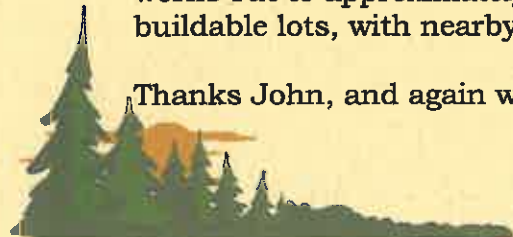
As we discussed at our meeting on pricing opportunities for the city properties that are to be listed, please see the following list. Comparable sales are almost non-existent, and in fact sales of any vacant land are extremely few. Therefore we approached the equation by backing into what a developer or user could afford to pay to invest, develop, and build to develop a successful business or residential unit. Our best estimate for listing pricing at South Shore is found below. I am aware of the departure from the former pricing structure, and would not suggest these if there was not a sufficient confidence level to successfully move some of this property. In particular, I recommend that lot #5, in block #1 be aggressively priced and packaged with some incentives to get something started in the area. Buyers need to be reassured their investment will have some neighbors. The following are listed in square foot dollars.

- |                    |                   |
|--------------------|-------------------|
| 1. Lot #1, Block 2 | \$8.50 s/f        |
| 2. Lot #2, Block 2 | \$9.00 s/f        |
| 3. Lot #1, Block 3 | \$9.00 s/f        |
| 4. Lot #2, Block 3 | \$8.50 s/f        |
| 5. Lot #4, Block 3 | \$8.00 s/f        |
| 6. Lot #1, Block 5 | under \$ 3.00 s/f |
| 7. Lot #1, Block 6 | \$5.00 s/f        |
| 8. Lot #1, Block 7 | \$4.00 s/f        |
| 9. Lot #1, Block 8 | \$5.00 s/f        |

For the DOT site, again comparable sales are rare, but there are two. The DOT site is approximately 5.6 acres and is similar to a sale on the NW side of Bemidji, and one right across the street from the subject. The sale of those properties averaged \$85,000 per acre. We recommend \$525,000.00 - \$575,000.00

The Rako Street property is also difficult to price, but using an acreage of roughly 15 acres, and assuming it will be most attractive for residential use, likely single family homes, we are going to suggest an asking price of 325,000.00 for whole tract. This works out to approximately \$22,000.00 per acre, not a bad starting point for in-town buildable lots, with nearby water and sewer. It should attract a developer at \$2.00s/f.

Thanks John, and again we appreciate your consideration.



### South Shore Land Prices/Sales

|              |                                                                       | <u>Full Price or Sold For</u> |                   |                       | <u>Lake n Woods Recommendation</u> |                   |                       |                |
|--------------|-----------------------------------------------------------------------|-------------------------------|-------------------|-----------------------|------------------------------------|-------------------|-----------------------|----------------|
| <u>Block</u> | <u>Lot</u>                                                            | <u>Acreage</u>                | <u>Price/Acre</u> | <u>Price/Sq. Foot</u> | <u>Revenue</u>                     | <u>Price/Acre</u> | <u>Price/Sq. Foot</u> | <u>Revenue</u> |
| 1            | 1                                                                     | 2.15                          | \$267,442         | 6.14                  | \$575,000                          | \$267,442         | 6.14                  | \$575,000      |
| 2            | 1                                                                     | 2.42                          | \$500,000         | 11.48                 | \$1,210,000                        | \$370,260         | 8.50                  | \$896,029      |
| 2            | 2                                                                     | 2.05                          | \$600,000         | 13.77                 | \$1,230,000                        | \$392,040         | 9.00                  | \$803,682      |
| 3            | 1                                                                     | 1.46                          | \$600,000         | 13.77                 | \$876,000                          | \$392,040         | 9.00                  | \$572,378      |
| 3            | 2                                                                     | 1.90                          | \$500,000         | 11.48                 | \$950,000                          | \$370,260         | 8.50                  | \$703,494      |
| 3            | 3                                                                     | 2.01                          | \$500,000         | 11.48                 | \$1,005,000                        | \$0               |                       | \$0            |
| 3            | 4                                                                     | 2.17                          | \$348,480         | 8.00                  | \$756,202                          | \$348,480         | 8.00                  | \$756,202      |
| 4            | 1                                                                     | 11.38                         | \$35,149          | 0.81                  | \$400,000                          | \$35,149          | 0.81                  | \$400,000      |
| 5            | 1                                                                     | 2.67                          | NA                |                       | NA                                 | NA                |                       | NA             |
| 6            | 1                                                                     | 0.89                          | \$400,000         | 9.18                  | \$356,000                          | \$217,800         | 5.00                  | \$193,842      |
| 7            | 1                                                                     | 1.62                          | \$250,000         | 5.74                  | \$405,000                          | \$174,240         | 4.00                  | \$282,269      |
| 8            | 1                                                                     | 0.60                          | \$250,000         | 5.74                  | \$150,000                          | \$217,800         | 5.00                  | \$130,680      |
|              | Total Potential Revenue                                               |                               |                   |                       | \$7,913,202                        |                   |                       | \$5,313,576    |
|              | Bond Debt - Principal                                                 |                               |                   |                       | \$5,915,000                        |                   |                       | \$5,915,000    |
|              | Bond Interest                                                         |                               |                   |                       | \$1,650,471                        |                   |                       | \$1,650,471    |
|              | Potential Surplus (Deficit)                                           |                               |                   |                       | \$347,731                          |                   |                       | (\$2,251,895)  |
|              | Red indicates lots that are sold or under purchase agreement/option   |                               |                   |                       |                                    |                   |                       |                |
|              | Block 4 - Lot 1 sold on a per housing unit basis at \$10,000 per unit |                               |                   |                       |                                    |                   |                       |                |