



January 12, 2023

City of Silver Lake
 308 Main Street West
 Silver Lake, MN 55381-6206

RE: Street & Utility Reconstruction Project Financing

Honorable Mayor and Council Members:

The purpose of this letter is to provide preliminary analysis of the proposed comprehensive street and utility reconstruction project based on the USDA-Rural Development funding commitment provided in their two Letter of Conditions for project funding. A preliminary financing structure has been assumed for discussion purposes only.

Project Background:

The USDA Letter of Condition for the WEP (utility related) and CF (street related) loans outline total funding sources for the utility and street reconstruction project and includes the following:

| SOURCE: | AMOUNT: | AVAILABILITY: |
|-------------------|---------------------|---|
| USDA WEP Loan | \$12,585,000 | Upon project completion |
| USDA Grant | 4,177,000 | Drawn as eligible costs incurred |
| PFA Grant (State) | 3,114,000 | Drawn as eligible costs incurred |
| USDA CF Loan | 2,817,000 | Upon project completion |
| City Cash | 1,086,000 | Pay off existing debt & drawn as costs incurred |
| TOTAL: | \$23,779,000 | |

As the long-term USDA loans cannot be accessed until the project is substantially completed, temporary financing will be needed for construction and engineering. Based on timelines received from USDA and the City's engineer, it is anticipated that the earliest that a closing would likely occur on long-term USDA loans will be in 2027 with first payments on the long-term loans due in 2028.

Based on the terms referenced in the USDA Letter of Conditions which include a 40-year term and 2.75% interest rate for the USDA WEP Loan (utility work), and a term of 20-years at 3.5% interest for a USDA Community Facilities (CF) Loan (street work) annual debt payments are estimated as follows:

| | Loan Amount: | Annual Debt Service: |
|-----------------|-------------------|----------------------|
| <i>Storm</i> | 4,417,000 | 183,445 |
| <i>Sanitary</i> | 3,560,000 | 147,852 |
| <i>Water</i> | 4,608,000 | 191,377 |
| <i>Street</i> | 2,817,000 | 198,207 |
| Total: | 15,402,000 | 720,881 |

Repayment Sources:

Enterprise funds (water, sanitary sewer, storm sewer) are anticipated to take on the bulk of the repayment responsibility for the proposed project. For the purpose of initiating the conversation regarding the structure of repayment sources, I have also included special assessments and a tax levy to assist in a portion of the street and storm sewer costs which are not grant eligible.

The city's engineer has indicated that based on past practice, a minimum of \$2,175,000 in project costs could be specially assessed to benefited properties within the project area. If structured over a 20-year term at an interest rate of 4.5%, those assessments would produce approximately \$167,206 in annual revenue for 20-years. For this analysis I have split those revenues 50/50 to be used as repayment for the USDA CF loan which will fund street costs, and the other half of that revenue has been applied to the USDA-WEP loan for storm sewer which total \$4,417,000. The attached project cash flow (Exhibit 1) utilizes these assumptions.

Utility Rate Impacts:

The table below is meant to estimate the 2028 utility rates that would need to be in place when construction is completed on the project and the City has closed on its long-term USDA loans. The assumptions outlined above have been used to estimate repayment allocations of the USDA loans, the implementation of the required short-lived asset reserve, and the impacts of inflation on operating costs (5% per year).

| Utility Costs (2028) | Storm Sewer** | Water | Sanitary | Total: |
|----------------------|---------------|---------|----------|---------|
| Operating Costs***: | 22,590 | 99,339 | 119,029 | 240,958 |
| Short Lived Asset | - | 8,881 | 5,713 | 14,594 |
| USDA Debt**: | 99,842 | 191,377 | 147,852 | 439,071 |
| Total: | 122,432 | 299,597 | 272,594 | 694,623 |
| Per User/Month*: | 23.56 | 57.66 | 52.46 | 133.68 |

*Assumed 433 users

**Storm Sewer debt payments offset with assessments

***Operating costs do not include depreciation

To answer the question of "How does this impact my utility bill", I would offer the following. In 2021 the City of Silver Lake collected revenues totaling \$497,091 for water, sanitary sewer, and storm sewer services. Divided by approximately 433 EDU's (equivalent dwelling units) that would equate to monthly fees of \$95.67. As structured, the project financing and inflation in operating costs would produce an estimated utility bill for those three services of \$133.68 per month in 2028 producing a small surplus to meet the short-lived asset reserve requirement for water and sanitary sewer.

Property Tax Impacts:

By applying half of the estimated special assessment payments to the repayment of the USDA-CF loan for streets, a tax levy of \$114,604 per year has been used to fund the balance of the annual debt service payments for that loan. An estimate of the tax impact of that levy to properties of various market values is attached as Exhibit 2.

Summary of Impacts:

Annual inflation of 5% to operating costs has been incorporated into the proposed impacts which I believe is conservative. At that level, the average monthly utility bill in the year 2028 would be \$38.01 more than what that home paid in 2021, and the annual property tax on a \$150,000 home would have increase by approximately \$245.66 (\$20.47 per month) over the 2022 property tax due to a levy for a portion of the project debt.

Additionally, if the home is directly benefited by the improvements a special assessment would also likely be part of the additional financial burden required to fund the project. An \$11,000 special assessment would have annual payments of \$856 per year for 20-years at 4.5% interest if the assessment term were equivalent to the term of the USDA-CF loan.

If the City is successful in obtaining a State Appropriation for a portion of the project costs, some of these impacts may be mitigated. Based on my understanding of USDA funding, it would likely be most beneficial to have any State Appropriated funding directed towards USDA-CF Loan funded project costs (street costs) and storm sewer costs as they are presently not grant eligible.

I look forward to discussing this material with the City Council in detail at the upcoming work session.

Sincerely,

A handwritten signature in cursive script that reads "Shannon Sweeney". The signature is written in a light grey or blue ink.

Shannon Sweeney, Associate
David Drown Associates, Inc.

City of Silver Lake, Minnesota
 USDA-RD Project

Exhibit 1

Total Project Cost: \$ 23,779,000

| | | |
|----------------------------|---------------|--------------------|
| Rural Development Grant | \$ 4,177,000 | |
| PFA Sewer Grant | \$ 3,114,000 | |
| Rural Development WEP Loan | \$ 12,585,000 | - 40 years @ 2.75% |
| Rural Development CF Loan | \$ 2,817,000 | - 20 years @ 3.5% |
| City Cash Contribution | \$ 1,086,000 | |

Total Funding Sources: \$ 23,779,000

| | | |
|----------------------------------|------------------|------------------------------|
| Short Lived Asset Reserve Water: | \$ 8,881 | |
| Short Lived Asset Reserve Sewer: | \$ 5,713 | |
| | \$ 14,594 | - Annual Reserve Requirement |

Loan Payments:

| | Year: RD Loan | RD Loan | RD Loan | CF Loan | Total Annual: |
|------|---------------|--------------|--------------|--------------|---------------|
| | Water | Sanitary | Storm | Streets | |
| 2028 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2029 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2030 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2031 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2032 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2033 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2034 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2035 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2036 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2037 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2038 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2039 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2040 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2041 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2042 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2043 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2044 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2045 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2046 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2047 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ 198,207 | \$ 720,881 |
| 2048 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2049 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2050 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2051 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2052 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2053 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2054 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2055 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2056 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2057 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2058 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2059 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2060 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2061 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2062 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2063 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2064 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2065 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2066 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| 2067 | \$ 191,377 | \$ 147,852 | \$ 183,445 | \$ - | \$ 522,674 |
| | \$ 7,655,089 | \$ 5,914,088 | \$ 7,337,788 | \$ 3,964,143 | \$ 24,871,107 |

| Utility Costs (2028) | Storm Sewer** | Water | Sanitary | Total: |
|-------------------------|----------------|----------------|----------------|----------------|
| Operating Costs***: | 22,590 | 99,339 | 119,029 | 240,958 |
| Short Lived Asset | - | 8,881 | 5,713 | 14,594 |
| USDA Debt**: | 99,842 | 191,377 | 147,852 | 439,071 |
| Total: | 122,432 | 299,597 | 272,594 | 694,623 |
| Per User/Month*: | 23.56 | 57.66 | 52.46 | 133.68 |

*Assumed 433 EDU's
 **Storm Sewer pymts offset with assessments
 ***Operating costs do not include depreciation

Sources of Revenue:

| | Storm Sewer** | Water Fund | Sewer Fund | Special Assessments | Tax Levy | Total Annual: |
|--------------|---------------|--------------|--------------|---------------------|---------------|---------------|
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 99,842 | \$ 191,377 | \$ 147,852 | \$ 167,206 | \$ 114,604 | \$ 720,881 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 183,445 | \$ 191,377 | \$ 147,852 | \$ - | \$ - | \$ 522,674 | |
| \$ 5,665,732 | \$ 7,655,089 | \$ 5,914,088 | \$ 3,344,112 | \$ 2,292,087 | \$ 24,871,107 | |

City of Silver Lake, Minnesota
Preliminary Tax Impact Analysis - CF Loan

Exhibit 2

Amount Financed: \$ 2,817,000.00
 Term: 20 years
 Interest Rate: 3.50%
Debt Service Levy: \$198,207.15
Assmt Contribution: \$83,602.81
 2022 Tax Levy \$566,826.59
 Projected Levy \$681,430.94
 Pay 2022 Net Tax Capacity 588,092.00
 2022 Tax Rate 96.384%
 Projected Rate 115.87%

| Assessor's Market Value (Residential Property) | Current City Tax: | Projected City Tax: | Projected Increase: |
|---|-------------------|---------------------|---------------------|
| \$ 75,000 | \$ 433.73 | \$ 521.42 | \$ 87.69 |
| \$ 100,000 | \$ 689.72 | \$ 829.18 | \$ 139.45 |
| \$ 150,000 | \$ 1,215.02 | \$ 1,460.68 | \$ 245.66 |
| \$ 200,000 | \$ 1,740.31 | \$ 2,092.18 | \$ 351.87 |

| Assessor's Market Value (Commercial Property) | Current City Tax: | Projected City Tax: | Projected Increase: |
|--|-------------------|---------------------|---------------------|
| \$ 200,000.00 | \$ 3,132.48 | \$ 3,765.82 | \$ 633.34 |
| \$ 500,000.00 | \$ 8,915.52 | \$ 10,718.11 | \$ 1,802.59 |
| \$ 1,000,000.00 | \$ 18,553.92 | \$ 22,305.26 | \$ 3,751.34 |