

Minutes  
Silver Lake City Council  
Workshop Meeting  
5:30pm, January 17, 2023  
Silver Lake Auditorium

Mayor Bebo started the workshop at 5:30pm.

Members Present: Mayor Bruce Bebo, Councilor Sandie Adams-Bruins, Councilor Joanna Jacobs, Councilor Josh Mason, Councilor Chris Penaz

Members Absent: None

Staff Present: Diane Pedersen, Dale Kosek

Others Present: Karin Ramige, Shannon Sweeney, John Rodeberg, Sam Fink

1. Review of Funding package by USDA for the infrastructure project.

| 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 |   |

2. Project Total \$23,779,000

- a. **Loans** – USDA loans cannot be closed until the project is completed (Total Loans \$15,402,000). They require that the funding that will be paid for by loans must be exhausted first before Grants Funds can be accessed. Temporary financing will need to be obtained through a construction loan in the amount of \$15,402,000 to cover the costs initially. The temporary financing can be done in phases such as temporary financing for design and temporary financing for construction. This way the city will not be paying for the total cost of the project at once. The best way to obtain temporary financing is through a MN Rural Water Program which will allow the city to draw funds as needed which will reduce the interest expense. This financing is not available until the city has bids in-hand for construction. If the project total comes in at less than the total projected, grant funds would be reduced, not loan funds. Therefore, the city wants to make sure that the scope of the project is enough to use all the loan funds and then all the grant funds.
  - i. A construction loan will need to be taken out in the amount of \$15,402,000 to initially cover the amount of the two USDA loans. These loans would have an annual debt service of \$720,881.
    1. **USDA Utility Loan \$12,585,000** (includes some street replacements if there are underlying utilities).
    2. **USDA Community Facilities (CF) Loan \$2,817,000** (streets with no underlying utilities)
      - a. Loan Breakdown
        - i. **Storm Sewer \$4,417,000** (This is the portion of storm sewer that does not have underlying utilities and is **not grant eligible**)
        - ii. **Streets \$2,817,000** (This is the portion of the street that does not have underlying utilities and is **not grant eligible**)
          1. These two items would be a good use for **state appropriated funds** (The city requested \$15,000,000 (Total non-grant eligible grant funds \$7,234,000)). If the

city receives state appropriated funds, they could be used to pay for these two grant ineligible items and then the city could add back \$7,234,000 (or whatever amount of state appropriated funds the city receives) of items that were removed from the project. If the city were to receive the full asking amount of \$15,000,000, it could possibly add back all the areas that were removed in the current PER. The appropriated funds would not reduce the grants.

2. These items are generally property tax impact and special assessment impact to the city’s taxpayers, so if state appropriated funds are not received and the scope of the project needs to be adjusted, these are the two areas that would be looked at first.

**iii. Sanitary \$3,560,000 (grant eligible)**

**iv. Water \$4,608,000 (grant eligible)**

1. These two items are grant eligible (Total \$8,168,000). If state appropriated funds are used to pay for these two items, the USDA would reduce their grant.

- b. **Grants** – Drawn as eligible costs are incurred (Total Grants \$7,291,000). These grants are for water and sanitary sewer costs, not storm sewer and streets.

**i. USDA Grant \$4,177,000**

**ii. Public Facilities Authority (PFA) Grant from the State of MN \$3,114,000**

**c. City Cash Contribution \$1,086,000**

- i. This is the city’s cash-on-hand from the utility accounts. It is to be used to:
  1. Pay off existing debt calculated at \$486,000.
  2. Supplement project costs with the remaining \$600,000.
  3. The monies the city has already paid to SEH for this project can be applied to this contribution amount.

3. Projected Timeline

| Milestone                                     | Date                       |
|---|----------------------------|
| Public Hearing                                | June 4, 2020               |
| PER/ER Completion: submittal to USDA-RD       | October 2020               |
| USDA-RD PER Review (4+ months)                | October 2020–December 2022 |
| USDA-RD Funding Obligation                    | December 2022              |
| Owner/Engineering Agreement                   | January-February 2023      |
| Preliminary Engineering Design (10 months)    | March 2023 - January 2024  |
| Final Engineering Design (8 months)           | February-September 2024    |
| USDA-RD Legal Review (6 months)               | April-October 2024         |
| USDA-RD Legal/Engineering Approval (3 months) | October-December 2024      |
| Bidding                                       | January 2025               |
| Award Project                                 | March 2025                 |
| Start Project                                 | May 2025                   |
| Substantially Complete Project                | November 2027              |
| Final Completion                              | July 2028                  |

- a. The first thing to look at is the cost of design to get to the bid process. These costs will need to be temporarily financed through bond issues and can ultimately be paid off by the funding package, but they would not be reimbursed until after the end of construction. Once the temporary financing is exhausted, which will be for the total of the loan funds, can start drawing on the USDA Grant Funds of \$4,177,000.
- b. There were items omitted from the project to meet the total funding offered by the USDA. If the cost of the project comes in under the projected total of \$23,779,000, the PER could be amended again to add some of those items back in to reach the total projected cost.

- c. How will the debt service be repaid.
- i. Street Loan of \$2,817,000 would have an annual debt service payment of \$198,207 that would be paid with Special Assessments on properties that are affected by the project and Tax Levies. A preliminary special assessment roll is projected to be \$2,175,000. This assessment at 4.50% for 20 years would produce \$167,206 in annual revenue for those 20 years. If half of that amount or \$83,603 is applied to the Annual Debt Service of for the Street Loan Payment of \$198,207, that would leave a balance of \$114,604 that would be levied, which is how streets are generally paid for.

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

**Preliminary Tax Impact Analysis - CF Loan**

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

This table shows the property tax impact of the assessment for different property tax values.

| 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         |

- d. The remaining \$12,585,000 for utility financing for storm sewer, sanitary sewer, and water.
- i. Recommendation is to apply the other half of the special assessment or \$83,603 for the 20 years of the assessment to the \$183,445 annual debt service for the storm sewer. The balance of \$99,842 would be a user fee of about \$23.56 per month per customer.

| 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

- ii. \$191,377 Water and \$147,852 Sanitary Sewer debt service payments make up the balance of the loan which is \$339,229. The existing debt of \$486,000 will be paid off, and USDA is giving the city grants to bring these two areas down to the affordability level they have calculated which are noted in the table above. That would make the total monthly bill for an average customer \$133.68. Residents are currently paying about \$95.67 based on 2021 revenue making the total increase of \$38.01 by 2028 that an average customer would be paying.
- iii. The street portion of the debt service loan will be paid off in 20 years, the recommendation is to continue making the street portion of the levy and applying it to the storm sewer loan so the payments remain the same as they have for the first 20 years. The alternative would be to continuously raise the storm sewer fee until it will pay for the storm sewer debt service. This will need to be decided in the future.
4. On February 9, 2023, Rural Development and SEH will meet with the city council at 3:00pm in the council room to discuss the project as well.
5. The hope is to have all bidding done in 2024 so construction can begin in 2025.
6. There are two (2) areas where easements will be needed:
- The end of Lane where the storm sewer goes out.
  - Potentially one on Frank Street, but it is believed that one can be done in the ROW.
  - The only one they know the city needs besides the lift station that the city has already bought is the storm sewer easement.
7. When talking to the state for appropriation funds, is the high debt per capita which will impair the city's ability to finance other projects such as building improvements. The current plans do not include the water treatment plant. When applying to be on the bonding bill, the most frequent response from legislators is to go to PFA, which the city has already done and the city is still at a high debt per capita.
- Since nothing got passed last year, they are starting the bonding bill from scratch because of all of the new people involved.

Workshop adjourned at 6:22pm.

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 Diane E. Pedersen, Clerk/Treasurer

Seal of the City: