

**CITY OF ST. FRANCIS
ST. FRANCIS, MN
ANOKA COUNTY**

CITY COUNCIL WORK SESSION MINUTES

AUGUST 20, 2018

Mayor Steve Feldman called the work session to order at 5:00 pm.

Members present: Mayor Steve Feldman, Councilmembers Joe Muehlbauer, Robert Bauer, Rich Skordahl

Members absent: Councilmember Jerry Tveit

Also Present: Assistant City Attorney Dave Schaps (Barna, Guzy & Steffen), City Engineer Craig Jochum (Hakanson Anderson), Public Works Director Paul Teicher, City Administrator Joe Kohlmann and Acct Tec/Deputy Clerk Lori Streich

1) Oak Grove Ponds Development Sewer Connection Proposal

Mayor Feldman explained that they were approached by the City of Oak Grove to connect to our Waste Water Treatment Facility. Feldman said that whatever end result they come up with needs to be mutually beneficial to both cities. There are some points that he would like to go over.

To start, in 1998 the engineering company for the City of St. Francis recommended construction of a mechanical activated system for their treatment of wastewater. Instead, the city chose to listen to their Public Works Director at that time, who was apprehensive of that type of system.

In 2005, the City of St. Francis did an upgrade to their existing pond system in the amount of \$736,000. Since then, those ponds have been decommissioned.

In 2007, the City of St. Francis purchased 183 acres in Isanti County for \$2,018,500.00 to construct another pond. That is now valued at less than what the city paid for it and is presently being leased to a farmer on a yearly basis.

St. Francis wasted a total of \$2,754,500 from the pond upgrade and the land purchase. That money should have gone towards the new facility.

Pond systems are more vulnerable to the MPCA requirements and are limited in regards to the future capacity for new development.

The St. Francis Wastewater Treatment Facility is a state of the art, chemically activated system. The Wastewater Treatment Facility just received, from the state, a look back provision protecting it from MPCA future requirements for 16 years or until 2034. New plants are automatically on a 16 year program. We are the only city to retroactively receive this provision.

The City of Oak Grove sued the Met Council and won that decision but as a result they can never connect to the met regional infrastructure.

There are 264 pond systems in the state and the ability of them to meet future MPCA requirements gets more difficult each and every year.

According to the Met Council, no other city can connect to the East Bethel facility because as that city grows their system would become too small to service their needs.

The Cambridge facility is too far from Oak Grove.

It would not be cost effective for the city of Oak Grove to build it's own stand alone wastewater treatment facility.

The benefits for Oak Grove connecting to the St. Francis waste water treatment plant are:

1. No more concerns over MPCA requirements
2. No more concerns over capacity
3. Instead of upgrading the already existing pond system, that money would go towards connecting to the St. Francis facility.
4. The connection cost would be far less expensive than building a stand-alone wastewater treatment facility because of the close proximity to the already existing infrastructure in the ponds development.

As listed in the work session packet, they are estimating a connection cost of \$50,000 to the main and the ponds.

5. No yearly maintenance costs for new stand-alone plant (including chemicals, disposal of bio solids and extra labor costs).

In the 2014, the estimated costs of maintenance would be about \$22,000/year. They wouldn't have to deal with any of that.

Mayor Feldman discussed the breakdown of several alternative number options based off 218 residents at a 2% interest rate over 20 years.

There is a user's rate of \$142,000-\$144,000 that's in play for the next 20 years with them. He looks at the user rate as a good thing as it can stabilize our rates, lock in that 20%, even if a recession comes, we should be protected. It can also be used for further reproduction. But the cash up front for these charges allows us to either put them to our waste water plant for future expansion of our wastewater facility, or put it towards some things we are looking at for our renewable projects.

Kevin Robinson, 23978 Redwood St NW, used to be on the Oak Grove Council, explained what he knew about the current status of the Oak Grove sewer conditions.

Feldman said that Oak Grove talked about building their own plant for only 225 residents, not any extra. He thinks that's a big mistake because they may want to go city sewer and water for commercial or even more residential later, and would have to

add on to later. With us they wouldn't have to worry about any of that. Labor cost savings by having people on hand at the facility, solids to get rid of, and the MPCA requirements that they have future expansion. Feldman also wants to say that he's all for giving them some reduction, but is it really fair to developers out there coming into play right now to pay the full charge of \$4,284. An example would be River's Edge, who has 200 homes that they are paying \$4,284 for each.

One benefit in this agreement would be that they would be part of the region with us and they would share in the cost of our expansion.

For the first time in 20 years, St. Francis is in the driver's seat. Our system has capacity for 2,700 hookups with expansion to go far beyond that. By connecting with us, Oak Grove will save anywhere from \$300,000-\$500,000 on the construction costs of building their own facility, and they will never have to worry about wastewater like we did.

Muehlbauer said that it would help us to solidify our rate reductions or possibly balance it out sooner. He doesn't think Oak Grove should get a huge discount based on the fact that we have developers investing in our city now paying the full rate, and how do you explain to them that we cut Oak Grove this huge break. The yearly usage charges that we are going to get are huge. He agrees with Mayor Feldman that it must be fair and equitable to both sides. He feels that getting money up front is a good idea. For us getting our percentage along with solidifying that contract based on the issues we had with the previous contract for clean water is something we definitely need to look into.

Feldman also wanted to mention that in 1999 a developer approached the City of Oak Grove to develop 412 acres for the golf course. At that time, the Oak Grove council turned it down. The developer then went to the state to see if they could get access to St. Francis. We were on board with that and then Oak Grove took us to court to fight it, so it stopped that annexation. Then it went into a mutual agreement on a communal water system to make it work. We came up with a communal water system once we built our out plant big enough to help work with them. We did five – 5 year terms out to 2027. Before the first 5 year term was up, they tried to break everything on that. They wanted to do away with the 2% usage charge, they wanted to cut the base rate out, they wanted the water for free. We came back and kept the 2% rate, and went to a half base rate instead. That base rate for them helps them maintain their side of the system.

To do an assessment for 20 years with them, Feldman thinks that would be outrageous. Can we trust them? They tried to break a deal in 1999 and they tried to break one in 2006. Cash in hand, we don't have to worry about that.

Bauer said the rates don't look too bad. He would like see our user rates for water and sewer to be the same for those new residents. Work with Oak Grove and try and figure out what that savings looks like to them based on the user rates that we do. Does that mean we may need to maintain some of that, he's not sure. He's all for annexing those homes. He would like to see it equal across the board. Our residents feel the water

rates and if we have a water rate reduction and we lock in this base rate and user rate, he wants to make sure we have the ability to increase the rates with those and also reduce the rates. His understanding to hook that up is \$50,000. He understands we want to do the sac charges but he doesn't really understand that charge. Trying to get \$675,000 in sac charges when they aren't putting in the infrastructure, the new developers have to put all that in, we have to get it to the new homes, all that stuff is already done. It's up to Oak Grove to maintain. Nothing is going to change on their sewer end. He can see them trying to fight the sac charge. Do we need to bring in some funds? Without a doubt. He likes the annual increase in revenue. Bringing a proposal to them is more expensive than building their own system. It needs to be beneficial to them but it also needs to be a revenue stream to our city.

Feldman said that the sac charge is a connection charge for them to hook up to the plant. It isn't beneficial to both sides, only one side. That plant cost us 24 million dollars to build. He wants to be fair with them but we have one opportunity to get some cash up front that is a long term benefit for us and user rates which will benefit them much more down the road.

Skordahl would like to know what we are signing up for. In this agreement are we accepting whatever comes out of the pipe? They own the infrastructure under the streets, they own the existing pumps or whatever might be there. So we are basically going to accept whatever they send us, that's the agreement. They deal with everything upstream. That would still be their problem?

Teicher answered that is true. He said he would assume the next step would be to create a JPA (Joint Powers Agreement), similar to the JPA that we have for the water. In that JPA we would address some of the finer points, like whether there's a surcharge or anything greater than normal domestic wastewater strength, I&I protection, those type of things, making sure we are covered. If they want to add more connections, they need to talk to us first to make sure we have the capacity. And all of what is in their system and in their city remains their infrastructure. It is his understanding that each home has its own lift station and is a pressurized system. Our system is gravity. We wouldn't want to have to maintain every lift station within each home. That would be a huge undertaking. We would want to leave that on their side.

Skordahl said that he thinks a lot of people knew this day was going to come. Those systems aren't going to live forever. He doesn't want to take over all that other stuff. He just wants to take whatever comes from the pipes and deal with it. As far as the sac charge, it's the bill that helps pay for the infrastructure, not just what's under the street in front of your house. You have to pool all that money together to pay for the treatment plant. Every one of these residents in the ponds, baked into the price of their house, is whatever the developer charges for their infrastructure. Buying a house in a neighborhood like that was the risk they ran. That's the risk he runs on his own private septic system.

Skordahl continued that if the agreement is such that we just take in the wastewater, leave everything else to Oak Grove, as far as the sac charge is concerned, he could explain to new developers here why we would charge the ponds less. He doesn't know if he would go with the 30% but some reduction could be warranted, and then he would like to see them pay the same rates as our citizens. If our citizens dollars pay for cleaning up pumps and all that other kind of stuff, whereas their taxes would be paying for Oak Grove and whatever their public infrastructure might be over there, not counting the individual lift stations that they would have to deal with, then he's in favor of moving forward, but doesn't want to price us out of it, and also wants to be fair. So he thinks a reduction in sac fee would be warranted.

Skordahl asked how much capacity we had in our plant.

Feldman said with everything in play we would still have 400 hook ups left over.

Skordahl said we are giving up 1/3 of our capacity to take on residents that we don't get any tax benefit from. We will just get a big check, which if we develop those 600 units in our city, we would get that big check anyway but farther down the road.

Feldman said that it needs to be understood that it's a \$1.3 - \$1.5 million dollar bond that they have to pull. We could save them huge on the construction end. Getting that \$700,000-\$800,000 upfront is good money for us, and they get a lot of bang for their buck. What he's proposing is that we go over the Joint Powers agreement, take out the 2% usage, keep the half rate in, and give them a reasonable offer.

Kevin Robinson suggested encompassing the people on the west and the people on the lake for future because he doesn't know that their systems are up to snuff.

Feldman said that is up to them. We can only go by what they are approaching us on today.

Mike Rodger said that he doesn't want to see us rush into this. We've rushed into too many things too fast and gotten the city in trouble. Let's wrap up a package to them that they can't refuse. Let's take that million and a half dollars that they have to pull a bond for, let's finance it for them. We have nothing to lose on that. If we finance they don't have to go get financing and that would be a 20 year payment coming to us. Now we can go to our developers and say we financed them and that's why we could offer the lower sac rate. If we come in at \$4,000, finance the package for them, we get the 2%, we win all the way. Either way, he doesn't think a decision should be made tonight.

Feldman asked what if the economy falls and they can't make payments? He thinks we should let them take the risk not us.

Rodger asked if the residents could petition to have St. Francis annex their land.

Assistant Attorney Schaps said they could petition their council but that doesn't mean their council will go for that.

Skordahl asked if anyone knows how the land that's still open is zoned. There's still a lot of open land. Does their comprehensive plan or their zoning give us any indication that they think they are going to build out further in city lots? All of that will be developed someday, and if he were Oak Grove, he would once they connect to our infrastructure. That's a lot of land that could be developed.

Feldman said that he would imagine that they would want to decommission that pond just as we've decommissioned our ponds.

Bauer said that he thinks what Skordahl is saying is maybe once they connect to us what's to say that their development doesn't just tack on to the end and just keep going.

Skordahl stated that in the joint powers agreement it is written that they are supposed to come in and get permission. But what city council will tell them that they can't tack on another 200 homes and give them 200 x \$4,000 in sac charges?

Bauer said that it should be left at the \$4284, drop the 2%, and leave the half base rate.

Feldman agrees with that 100%.

Skordahl said that you already gave them a cost break on the base rate of water.

Muehlbauer said that you have to prepare for their expansion.

Council gave direction to staff to put a proposal together for \$4284, take off the 2%, half base rate on the water joint powers agreement, and let's see what they come back at.

Mayor Feldman closed the work session at 6:07 pm.

Respectfully submitted by:

Lori Streich
Acct Tech/Deputy Clerk