

**CITY OF PARK RAPIDS
CITY COUNCIL WORKSHOP
FEBRUARY 12, 2013, 5:00 PM
Park Rapids Public Library-Lower Level
Park Rapids, Minnesota**

1. CALL TO ORDER: Mayor Pat Mikesh called the City Council Workshop for February 12th, 2013 to order at 5:00 p.m.

2. ROLL CALL: Present: Mayor Pat Mikesh, Councilmembers Dave Konshok, and Rod Nordberg. Councilmembers Erika Randall and Paul Utke arrived late. Absent: None. Staff Present: Administrator John McKinney, Treasurer Angela Brumbaugh, Public Works Superintendent Scott Burlingame, Liquor Store Manager Scott Olson, Police Chief Terry Eilers, Planner Dan Walker, and Clerk Margie Vik. Others Present: Ulteig Engineer Brian Hiles and Anna Erickson from the Enterprise.

3. DISCUSSION:

3.1. Review the 2013 to 2017 Capital Improvement Plan for the City of Park Rapids: McKinney stated we're working on a proposed five year capital improvement plan. In the first year we start with a list of items, with notes on the relevant updates. Listed as projects for 2013 are the annual installment for the Heartland Express bus purchase, resurfacing the parking lot at the liquor store, street seal coating, Riverside Avenue Project-Phase One, beer cooler, squad car, and jet vac purchases, the water treatment facility, surveillance cameras for Main Avenue, Highway 34 Project shortage, the Red Bridge Park Improvement, and the airport paving/extension of the crosswind runway project. Each of those items are reflected as you work your way across the spreadsheet, the department that it's for, the estimated cost, and where the money will be coming from. This total is thrown off because of the airport project. That's a 90/10 federal project. We're showing the total, not just our share. This is an estimated amount. We hope it's high even.

McKinney stated we did the same thing for the succeeding years. Some of the items in year one are carryovers from previous years, or things we have talked about doing and haven't gotten around to them. There are a couple of really big items, the water treatment facility and the airport project, that need to be done in 2013. I wouldn't propose any changes in the airport project because that's dictated by federal funding. The disappointing part is that it used to be 95/5. It's now 90/10 but we really don't have any choice. We either do it or go to the end of the line with respect to the federal funding.

McKinney stated staff is here to answer questions if you have any. We put down what we understood were the Council's wishes with respect to carryover from preceding years. In a couple of instances we may have moved it more than one year. In some cases it doesn't do you much good to just switching it one year because it's building up. It takes about three years to get down to where we're in a decline again with respect to these costs. If you look at the items involved in a project that are listed, if we could deal with

questions about those, and then we could talk about the funding. It's a little hard to set up the financing if we're not clear on what you want to do.

Nordberg stated I didn't realize that the Riverside Project could be done in three phases. McKinney stated we did talk about a single phase, and then multiple phases based on the practicality of being able to do that. That is an option. Burlingame stated I was told there was an expressed interest in making this a much smaller project. That's how we came up with this phasing. First, just replacing the trunk line cuts the whole project in half. That's how we came up with the phasing. McKinney stated phase one is all of the trunk line. Burlingame stated most of it. There are a couple of extra blocks that are connected to other parts of the city, which would be wise to pick them up in the same project. McKinney stated basically phase one is the trunk line, and then we went into two phases for the rest of it.

Nordberg questioned is there a sense of what it costs to spread it out as opposed to doing it all at once? Could it have been done all at once or is it just too big to do it all in one year? Hiles stated from a construction standpoint, you could do it all in one year. As far as practicality and the size of the project, it was directed to us to look at it and break it into some smaller projects. How do we get the best bang for the buck out of this area? You could definitely still do it as one whole project. The study was done and when the numbers came in it was deemed to be too big of a project. This is a practical way to divide this out so that the most critical section of it does get done first.

Mikesh stated when they did bring this to us before the previous Council's biggest concern was there were a lot of houses that are already vacant in the project area. To hit them again, my feeling is that there would be a lot more people walking away from their houses. That was my biggest concern when they brought it to us the first time. Nordberg stated I know that it is a big project.

Nordberg questioned is it going south of Eighth Street to that part that has never had sewer or water before? Burlingame stated that would be in the third phase. It would be based on need, if that developer still has that need. Nordberg stated that would be for one side of the street, but the people on the other side of the street have been waiting for a lot of years.

McKinney stated if it were of interest to the Council they could combine phases two and three for next year if from an engineering standpoint that's a possibility. Right now we're setting it up as three. That's a reviewable decision next year. Nordberg stated the numbers are scary. We could reduce the first number in 2013 by the \$4.5 million. We don't need to carry the \$5 million for the airport to the total? McKinney stated only the 10% is the city's share.

Konshok stated the two numbers that we try to gauge and control are the levy and the special assessments. We try to keep those numbers fairly even. The question I have is we have Riverside in three phases. We have Northwest Area-One, and Fair and Fifth. Is that pretty much it as far as reconstruction? Burlingame stated there is one more area over by Rice Park. There's a few blocks of old clay tile there. Konshok stated the good news is we're getting to the end of the must do projects. Burlingame stated most of those have been identified in this CIP. Konshok stated the important thing is that we get them done in the next five years. If we have to move them around to lessen the impact of the levy or the assessments, there's not a lot of penalty for doing that. Splitting the Riverside Project doesn't really gain us much. Hiles stated no, there isn't really a gain to it. Konshok stated the risk is that prices could go up if you push it out. Hiles stated construction prices have

been pretty consistent. Burlingame stated they have been at historic lows in the last couple of years.

Brumbaugh stated we talked to our financial consultant, Monty Eastvold, to see how the project costs will affect the city if we do them as outlined on the CIP. The graph is just showing the amounts of the special levies for our bonding. The levies for the new projects are listed in red type. McKinney stated if you adopt the plan, in 2013 it doesn't affect the bond levy at all. We're talking only about the debt service levies. In year two there's a new levy in the amount of \$25,000.00 included. Brumbaugh stated that would be for the Riverside Project and the Highway 34 shortage. Konshok stated the way we are projecting now in 2015 and 2016 we have an almost \$200,000.00 increase in our annual debt service levy. Then it drops back down because we're retiring some of the older bonds in 2017. McKinney stated so if your sole motivation was to levy that thing out it doesn't do much to change 2013, it's when you get into 2015 and 2016. Konshok stated except for the timing of the projects.

Brumbaugh stated the graph entitled "Projected Debt Based on Capital Improvement Projects" is based on the CIP as the staff put it together. In 2013, as this is laid out, your bond amount would be about \$1.6 million. In 2014 it would be \$4.8 million. This shows how the bonds will affect the city's residential homeowners. As an example, if you had a home worth \$100,000.00, from 2013 to 2014, it would increase your taxes by \$8.12. This is just for residential market value. McKinney stated this is assuming the borrowing as shown in the CIP.

Nordberg questioned is there a connection between these numbers or the amount that needs to be levied there and the amount on the first sheet? In other words, this is to be amortized in 2013 of over \$2 million, how does that relate to these numbers? McKinney stated the first number is the total that we would borrow, and the other numbers are how we spread it over the amortized period. We're showing what we're going to borrow, like the Riverside-Phase One, we're going to have assessments of \$880,000.00 and the bond levy of \$220,000.00.

Brumbaugh stated you have to exclude the water treatment facility, because that debt is done differently. It's not calculated in here. That is the PFA loan. When you look at that total it's a bit different because the \$1,530,000.00 on your first sheet, that's not calculated in here because it would all come from water revenues. Nordberg questioned it would be paid out of the fees? Brumbaugh answered yes. PFA is expecting us to pay for it out of our fees. McKinney stated it would be a revenue funded obligation. Konshok questioned what is that going to do to the fees? Brumbaugh stated we may be looking at our fees to see if we need to raise them or not. McKinney stated we probably will. Nordberg questioned that must be amortized over a number of years? McKinney stated the \$220,000.00 that we're levying is the total, not that year's levy. Brumbaugh stated all of these are calculated as a twenty year bond.

Konshok stated this doesn't include \$1.5 million. Brumbaugh stated right. The \$1.5 million is not calculated in there because it's not a general obligation bond. Konshok stated it's not going to be in the levy, in the taxes, but it will come across in people's water bill. McKinney stated if they are a non-water user, they don't get a bill. Konshok questioned do we know what that's going to be? Brumbaugh stated we talked a little bit about this last year. The consensus at that time was we wanted to wait. As a Council maybe you want to look at that now and decide what to do with the water rates. Konshok stated it impacts this because whether it's on your water bill or your property tax statement it's the total financial

burden that we're putting on folks. Folks that have talked to me don't really care which bill it comes on, but the fact is we're charging more.

Nordberg questioned have we done any rate studies? Hiles stated until we have a good idea of where we're going to be at, we could do a worst case scenario and come up with a number. Even to project that out it will depend on the bid numbers. The big thing right now is the funding. We're hearing that we're getting a pretty good funding package. The better that is, the lower the rates are. Typically they require that you meet an affordability rate on your average residential user. It doesn't mean that what's your typical household is going to be, but if you do calculations based on 60% of the city is based on commercial usage versus 40% residential. Your commercial does help offset that cost. The way that billing rates are set up, higher usage is a higher rate. You can do things to minimize the impact on the average small user, versus the bigger commercial users who end up paying a little bit more. If you look at just a stripped down number for an average connection in town, you're looking at a \$6.00 a month increase. It will all depend on where the final numbers come in and then what we do as far as setting up the rate structure for the billings. You're probably looking at switching from quarterly to monthly billing cycles, adjusting the flat rate, and the fee rates.

McKinney stated under the bond proceeds payable from levy, there's a \$1,530,000.00 entry under the water treatment facility. That is really not a levy. That's a rate produced increment. Konshok questioned are there any others in that same category? Brumbaugh answered that's the only one.

McKinney questioned when is the best time to explore a rate study? Hiles stated once we get our funding package. McKinney stated we're not going to even submit it until the March 21st deadline. Hiles stated we're looking at probably May. McKinney stated in addition to how much, it's when. The rate increase could be done now in anticipation, but it's not a popular thing to do. Hiles suggested incremental increases versus one big one. McKinney stated we have a cultural adjustment if we go to the monthly billing versus quarterly. Even if you didn't change the numbers, it's a change and that creates some anxiety sometimes. Konshok stated the goal is to not create a perfect storm by spiking the water rates in the same year we spike the property tax levy.

McKinney stated from a debt standpoint we aren't doing anything new in 2013. The new one doesn't impact until 2014. It's unfortunate that we have those two major projects going that don't give you a lot of discretion, the water project and the airport. There's so much in those that you can't change. You either do them or you don't. You could not back away from the water project now. Konshok stated the question is what can we adjust or move around. Those two projects are hardwired to be done in 2013. McKinney stated if you look at the other stuff it doesn't make that much difference in the point that you're talking of. If you put them off it makes it even worse.

Hiles stated the main thing with the water plant and the user rate payback is you can adjust the user fee so that it does have more of a minimal impact on your lower water user, the retired couple that doesn't use as much water. The ones that use more will pay more for it. Konshok stated so I pay less at my house but more at my business. It's still overall impact. It's still money to the taxpayer, whether they're commercial or residential taxpayers. McKinney stated as part of the rate study we would look at the categorization as well.

McKinney stated in year one the shortage for the Highway 34 state project has been paid with an inter-fund loan. If we didn't we would have been penalized. We have to pay ourselves back. That's another one where the discretion is minimal.

McKinney stated once you direct us to do so, we would set a date for a public hearing, assuming that you want to move forward. Mikesch stated with the CIP we can adjust it down the road if we need to. McKinney stated you're adopting a five year plan. We've established plenty of precedence for amending it. Konshok stated a perfect example is the water treatment facility. It was never on the radar. Now it is and it has to be done so it makes sense that we're going to have to adjust other projects or delay them.

Nordberg stated Senator Rod Skoe has introduced a bonding request at the legislature for the Upper Mississippi Center of the Arts. It's not likely to go through this year but it may go through in another year since Skoe is the head of the tax committee. If it does it requires a one to one match and the City of Park Rapids and Hubbard County are likely going to be asked to contribute something. Is that something to include in here since you can delete it if necessary? If you consider it a capital investment in the city, it gets harder to add it than to subtract it. McKinney reiterated the question is how much and when. It would be a payback under the state funding. It's a state bond and we're going to be requested to come up with a matching portion of some sort. That's not included in the state money. Nordberg stated the whole community and other groups will have to match it. We would be asked.

McKinney stated depending on how much and when we could amend the plan for subsequent years. It would probably not be 2013. In the future we can bring it to you. If you tell us how you want it funded and we'll put it in the plan. Nordberg stated the state money gets channeled through the Economic Development Authority. McKinney stated our share would be economic development. Monty Eastvold would have to tell us what category it would fall under for our financing. If you borrow it, we're going to pay it back with a levy, that's clearly a problem. Some things we have done through excess enterprise funds, which we're assuming you'll be continuing with that process, although we don't have as much in the fund as we used to. Nordberg stated I brought it up so it's not a secret that we might be asked for money in the future to match the state bond.

McKinney stated you can see by year what the levy spread is. It goes up every year and it stays up. Assuming all of the projects that we have on the spread sheet remain at the cost they are and done in the year they are shown, this is what you would be doing for levies. To the extent that we have used other funds to abate that levy, that would continue and it depends on a year by year basis. These costs are all estimates.

Konshok questioned are we going to talk about the vehicle purchases? Are the department heads comfortable waiting this long? Eilers stated we've been purchasing a new squad every other year. McKinney stated the Chief has been helping with the income side of that with his forfeiture fund.

Nordberg questioned what does it mean on the sewer vac jetter that it was budgeted for in 2012? Is the money sitting somewhere? Brumbaugh stated it was on the last CIP at \$287,500.00, but we didn't have enough. We know now that \$395,000.00 is an accurate number. McKinney stated they've been considering that acquisition for prior years. Now we have a solid number. Nordberg questioned can that be paid with sewer fees without raising them? Brumbaugh stated you wouldn't have to raise them to pay for this. McKinney stated there's some savings that go with that acquisition. Burlingame stated in the next three years there will be a substantial increase in our irrigation contract. It will

bring in a lot more revenue to that fund. Utke stated it's a piece of equipment that is expensive, but much needed. It will make the guys more efficient, and they'll do a lot better job when they're out there.

Nordberg questioned is the Council comfortable with the money for the parks, on the Red Bridge redevelopment and then later on Rice Park? It seemed like we had some potential expenses at Deane Park. Brumbaugh stated it's under future purchases. McKinney stated the Park Board met last night and they have indicated a desire to review the long range plan, which has gotten out of currency. In a year or two they'll be better able to answer your question. For the moment they didn't ask for anything. We have fencing left to do in Pioneer Park. That's about it up to this point. Walker stated they're going to be doing the benches through donations. Konshok stated on the future park purchases, these are basically markers. It doesn't indicate if we can get private or corporate partnerships, which we were able to do with Lindquist Park. The Park Board needs to come up with a schedule of what they want to do. It should be noted that the parkland dedication fund is tapped out with the completion of the gazebo in Lindquist Park and the Pioneer Park improvements. Since we don't have any development going on we don't have any parkland dedication money coming in, not until we start seeing development again.

Nordberg questioned do we have any financial obligations for that street/highway redevelopment south of the airport? It's adjacent to city property. Konshok stated that's all being picked up by the county. McKinney stated we're not aware of any costs to the city for that.

Utke questioned in year five there is a salt/sand shed mentioned? Burlingame stated it's for the future. Right now we buy through the county. We've had our share of issues, such as supply. The state has their own shed. They purchase their own salt. We buy it from the county. I'm not entirely sure of what they put on top of that for an increase in price, if they do at all.

McKinney stated in future purchases we show an administration building. There is a lot of interest in upgrading the library. The part of city hall that we are using has very limited space. At some point, that shouldn't be ignored. My sense is that the library may be pushing us into decisions on for example a joint building. Possibly the library moves out and we move in. I'm not suggesting that, I'm just saying don't assume that city hall doesn't need more space. It really does. It's not efficient the way it's set up now. Nordberg stated I hope the library people are including us in the talks so we don't suddenly get stuck with an empty building. It's been talked about for years in general, but nothing specific.

Nordberg stated I was approached by a member of the Senior Citizens Center who read the article in the paper. They suggested if this building became empty they might be interested in moving here so that the present senior center might be included in the armory project plans. That was a communication that I wasn't expecting.

McKinney stated if the Council chooses you can set a date for a public hearing for the CIP in about a month, which you would take action on at the regular meeting. Konshok questioned when do you want us to make suggestions about moving projects around? McKinney stated if you want some time, that's okay, but we would have to change the date of the proposed hearing on the plan. The way the publication dates are it takes about a month to get it done. Konshok stated because of the water treatment facility I think we need to look at shifting the major projects at least one year out. That gets us closer to matching up with the bond retirement schedule so we don't see that \$200,000.00 spike in 2015 to 2016 if we shift the project schedule one year. The major project for this year

would be the water facility project along with our portion of the runway project. It seems like that would significantly reduce the pressure on the bonding.

Nordberg questioned the main thing you're shifting is Riverside? Konshok stated you shift Riverside-Phase One to 2014, Riverside-Phase Two to 2015, and so on. In year five we aren't projecting any bonding. I think that's sensible. Yes, we'd be adding another year to certain projects, but that's what we have to do especially if we have an out of cycle large project, such as the water treatment facility. The fact that it's going to fall on the water rates and not the property tax, that's convenient, but, we have to be responsible and consider all that a part of increases in what the city is charging the residents. That's not even showing on here. Even without that we're showing a significant increase in the bonding levy for 2015 and 2016. I think we need to address that and try to push that out.

Nordberg stated we have already pushed Discovery Circle out two years. Konshok stated that's what we do with a five year CIP. We adjust the projects to being done when it makes sense to do it physically and financially. McKinney stated the rates that you charge water users doesn't necessarily have to be in the same year that you're doing the work, and if you have to do a significant jump, you might want to consider staging that. The sooner you start the stage the longer you can have it staged, than not. Konshok stated all you're saying is if we raise it slightly this year we could avoid a spike next year. But if we do the project this year we're going to have to increase the rates this year. Would they have to be increased by the full amount? Brumbaugh stated that's where we'd need to do a rate study to see how we're situated.

Konshok stated even without the water project there is still a significant spike in the levy in 2015 to 2016 that I think we should try to address. McKinney stated the stuff that we have already committed to is the biggest portion of that. There's also the possibility of restructuring the debt and the way it's paid out. We can talk to Eastvold about that. We've done that before because of lower rates. Now we'd want to do that to spread out the term. Konshok stated the only thing we can talk about moving out of 2013 is Riverside-Phase One. The Highway 34 shortage has to be paid. The water treatment has to be done. We made a commitment in the budgeting for the seal coating that we need to get started on. We've been putting that off. That's still \$220,000.00 less.

McKinney stated we might take a look at the way the debt services principle payments are made. We might want to delay some of the principle payments as much as we could in those new bond issues. Not much we're doing can significantly change the levies. They are going to go up. Konshok stated anytime we start going to \$700,000.00 it's out of our comfort zone. McKinney stated the years 2015 and 2016 are tough. We could talk to Eastvold to see if there's anything that we might do to lessen the impact of those two years by either paying it earlier or later. We might go for a longer maturity and reduce the principle payment but you still have interest. And, if you reduce the principle, your interest costs are going to go up overall.

Mikesh stated we've had some problems in the Riverside area. Is it going to make it another year? Nordberg questioned how much risk are you willing to take? Burlingame stated every time it backs up that should be known. We've talked about it before that we're paying the insurance company \$2,000.00 for every sewer backup. The insurance company is penalizing us. McKinney stated I sense that you feel Riverside-Phase One really needs to be addressed. The discretionary options are starting to disappear. Konshok stated the area of backups aren't going to be addressed until Riverside-Phase Three. McKinney stated we were thinking of the deterioration of the structure itself. Konshok stated I

understand, but we need to be clear, if our concern is owner backups, that's at the tail end of the whole project. Nordberg stated but a year is a year. Burlingame stated we just had a backup in the northwest area one week ago where there's clay tile. If you're going to use that scenario then you have to get it all out of the ground. The clay tile is full of roots.

McKinney stated the Council needs to give us some direction if you want to make changes or not. The documents prepared for the regular Council meeting are under the assumption that you don't want to make any changes.

Nordberg stated I assume moving Discovery Circle back might make some people happy. Have we heard anything about that? McKinney stated we don't have a lot of public input at this point yet, because that's the purpose of the public hearing. Nordberg questioned in terms of the properties that were sold contingent on us providing water and sewer? Mikesch stated we have mud in our faces on a couple of them. McKinney stated weren't there some problems with some individual septic systems? That makes our sewer project more attractive. Mikesch stated one of the most vocal in the audience had her system recently fail.

Mikesch stated I'm comfortable with the way it is now. If something comes up we can always address it. McKinney stated you may give some thought to the direction that you want on the rate study. We're not ready to have you do it yet. Unless I hear otherwise, we'll begin talking to have one done and what it would entail. We don't need any action today. The public hearing will be set at the regular meeting.

Konshok stated I'd like to shift some of those projects around. Utke stated I look at the spikes in 2015 and 2016 and how they could be incorporated into possibly moving projects. Is there any advantage to refinancing any of those that would not just cost us more money down the road? Everything here is flexible. It's a guide.

4. ADJOURNMENT: A motion was made by Utke, seconded by Nordberg, and unanimously carried to adjourn the special meeting at 6:03 p.m.

[seal]

Mayor Pat Mikesch

ATTEST:

Margie M. Vik
City Clerk