

**City of the Village of Minnetonka Beach  
Finance Committee Meeting Minutes  
Wednesday, January 4, 2023 - 6:00 PM**

**1. Call to Order**

Chair Zinn called the meeting to order at 6:03 p.m.

Members Present: Chair Chris Zinn, Brian Call, Jaime Gmach, Liz Nordlie, John Woerner  
Absent: Members Erik Bender and Jim Dudley

**2. Approval of Agenda**

Zinn explained that they will be reviewing financing options for a new water treatment plant. The updated costs of the new plant are higher than a few years ago. Ehler’s put together a plan of how to finance it, which is difficult with 230 homes paying for it. Financing will be in two parts – design and engineering in 2023 and construction in 2024. Zinn will take their recommendation to the city council on Monday, January 9, 2023.

**(Woerner motion, Nordlie second to approve the agenda; all ayes.)** Motion passed.

**3. Approval of Minutes – August 25, 2022**

**(Nordlie motion, Gmach second to approve the minutes; all ayes.)** Motion passed.

**4. Utility Rate Study – Ehler’s**

**4.1. Review of Utility Rate Study**

Kimmel reviewed the utility rate study presentation in the packet. The purpose of the study was to determine options to fund the water treatment plant, estimate future water rates, and tax impacts for the levy portion of the treatment plant. The operating assumption was that expenses would increase 5% annually with operating expenses similar to current expenses. Kimmel went on to say that the water treatment plant design costs are estimated at \$600,000, and construction costs at \$6,040,000. Another need is hydrant replacements at \$10,000 per year. Zinn stated that Stantec worked with Ehler’s to provide costs for their study. The rate study should be reviewed every few years to make sure city reserves stay on track.

Kimmel discussed financing options:

- G.O. Water Revenue Bonds – repaid by water revenue only, difficult to do with only 230 homes
- G.O. Tax Abatement Bonds – paid by tax levy with no referendum allowed and a maximum term of 20 years
- Combination of both types of bonds to use tax levy and water revenues to pay debt.

Kimmel explained that when dealing with core infrastructure it is not recommended to have a referendum. All other cities do not do referendums for this type of financing and these projects.

Kimmel reviewed the timing of bonds and debt service. The recommendation is two issuances, one in 2023 (for engineering) and one in 2024 (for construction) for a debt service of \$530,000 per year

for 20 years, principal and interest. The two part approach gives the city time to get everything it needs before issuing the second bond. Extending beyond 20 years does not make sense because of extended interest expenses. Interest rate estimates were conservative for the study.

There was discussion about the useful life of a new water treatment plant which is 50+ years and that the financing would be much less than the life of the plant. The city would like to make it as affordable as possible. The current plant is beyond its useful life and was built in 1958. An assessment was done a few years ago and only life safety issues have been repaired. Rehabilitating the plant per the assessment report would cost a lot of money and only extend the useful life about 20 years. There is a filter that needs to be replaced which is \$100,000 and would not be able to be reused with the new plant design. Zinn stated that council has approved the design and engineering of a new plant. By doing the bond and engineering now, it gives the city time to get bids at a good time of year and gives the city time to design it. The current water quality is fine but the city does not want to face an emergency and putting band aids on it is costly with little return.

Kimmel reviewed rate options. The recommendation is for increased user rates and adding an infrastructure water treatment plant fee. If the debt was paid solely by increased water rates, it may incent watering from the lake and the revenue is variable. A water treatment plant fee is reliable, snowbirds pay year-round, but some low users will be paying a large portion. Zinn discussed purchasing water from Orono. Their water rates have gone up much more than Minnetonka Beach. The city would need to charge residents for Orono water and continue to charge for the water tower and other water related expenses including infrastructure improvements in Orono. With a new plant, the city would continue to have water rate revenue after the debt is paid. There was a discussion about Lafayette Club and they would contribute through property tax and rate increases. Kimmel then reviewed options with water rate increases and tax levy. Most cities rely entirely on water rates to fund water operations, but they have businesses to support it. Kimmel explained that the scenarios solve for the same revenue but blending property taxes, a fee and rate increases seemed more fair for all users.

Woerner discussed that a large property may be paying more based on valuation not on usage. Nordlie discussed that a new plant should improve property values for everyone, and a higher value home would have a higher value increase. Everyone pays tax for things that they don't use such as schools. Kimmel stated that tax levies used to pay for everything in the city, and the city has made great strides in placing an appropriate amount on water rates instead of putting everything on taxes. The city is unique in having so few houses paying for large costs. Call asked if they ran any other variations such as 25/75 or 60/40 toward usage. Kimmel stated future councils could ask for that and, when they get to actual project bids, the split could be finessed. With adding in the water tower debt, they are probably at 60/40 rates already. The committee members supported water rate increases, a quarterly water treatment plant fee, and tax levy. There was discussion about commercial rates but with only one commercial property, raising their fee would not generate a substantial amount money.

Kimmel discussed water conservation and that the city is trying to encourage responsible use without impacting water revenues. The committee supported using tax levy for a portion of the

treatment plant with increased water rates and a water treatment plant fee. The fees can be reviewed in the future. The city council already approved a 15% increase in rates and a water treatment plant (infrastructure) fee for 2023.

Kimmel then discussed the sewer utility. The sewer fund is self-sufficient but modest rate increases are needed to preserve cash reserves. The Met Council rates increase 5% annually and the city needs to increase rates to cover that.

There was discussion about assessing each home \$2,000 per year for the plant but Kimmel explained that assessments have a lot more public process, the city can be challenged by a homeowner, and it could over burden smaller homes. This process would be less burdensome.

The committee members stated they fully support the structure as presented with rate increases, a plant fee, and tax levy issued in two parts. Specific details can be fine tuned in the future. Kimmel stated that the city is making great strides in fund accounting and making funds self sufficient.

#### **4.2. Recommendations for Bonds**

Kimmel stated many options are available for the amount and length of bonds. A bond could be issued soon to begin to cover engineering costs and once all expenses are known, the second bond could be issued. A \$2 million bond would be attractive for approximately 10 – 15 year term and then wrap a second bond issue for \$4.5 million around it. Bond issuance should be done in spring. Interest rates would be less for a 10-15 year term bond. The city could invest the unused up front proceeds and make back a portion of the interest the city is paying. Ehler's would help with that investment. The city's AAA rating will not change with bond issuance.

Next steps – Zinn will provide the Finance Committee's recommendation to city council. He will meet with Ehler's in March and explore the bond issuance.

Committee members discussed that nobody wants to pay more but they need to invest in city infrastructure because it was ignored for a long time until recently.

**(Woerner motion, Call second, to recommend that the city support the recommendation from Ehler's Option #1 that consists of a combination of water usage and structure fee and tax levy, and a two part bond issuance; all ayes.)** Motion passed.

#### **5. Adjourn**

**(Gmach motion, Nordlie second to adjourn; all ayes.)** Motion passed. Finance Committee meeting adjourned at 7:13 p.m.

Minutes taken by Heidi Honey, City Administrator

Others Present: none