



City of Tyler, Minnesota 2023 Bonding Bill Request

Background:

The City of Tyler is requesting the inclusion of a sanitary sewer reconstruction project in the 2023 bonding bill. The project involves the construction and reconstruction of 2.3 miles of the sanitary sewer collection system within the City of Tyler at an estimated cost of **\$7,292,045**. The City of Tyler has found itself in a position of having very high debt levels due to other necessary utility reconstruction activities that were previously implemented.

In 2011 the City was able to obtain a Minnesota Public Facilities Authority (PFA) Loan of \$4,957,924 to reconstruct significant portions of its water system. That PFA loan still has a balance of nearly \$3,334,000 and will not be paid off until 2040. That loan still represents \$2,961 in debt per capita. When added to the other remaining obligations of the City which have funded utility and street reconstruction projects within the City, the City's debt per capita is nearly \$4,400 which is considered "high" by credit rating agency standards. The City recently had its credit rating downgraded due in part to its high debt levels.

If the City is required to borrow money either privately or through PFA for the proposed sanitary sewer reconstruction project, its debt levels will be difficult to manage and the burden on sanitary sewer rates will be unrealistic. A PFA loan to fund the entire cost of the project at 2.6% interest over 20-years would have annual payments of \$353,056. This would require monthly sanitary sewer rates of \$73.19 for an average household and result in an additional \$6,476 in debt per capita making it extremely difficult for the City to fund additional projects.

A PFA loan of \$3,500,000 at current interest rates would result in an average household paying \$45.00 per month for sanitary sewer services which is at the affordability threshold for PFA grant funding. The City has preemptively adjusted its wastewater rates to accommodate the debt service payments on a Minnesota Public Facilities loan of that amount.

Bonding Bill Request:

Project:	Amount Requested*:	Purpose:
Sanitary Sewer Construction & Reconstruction	\$3,792,000	Construction and reconstruction of 2.3 miles of the sanitary sewer collection system.

PFA Loan Request:

Project:	Amount Requested*:	Purpose:
Sanitary Sewer Construction & Reconstruction	\$3,500,000	Construction and reconstruction of 2.3 miles of the sanitary sewer collection system.

Total Estimated Project Cost: \$7,292,045

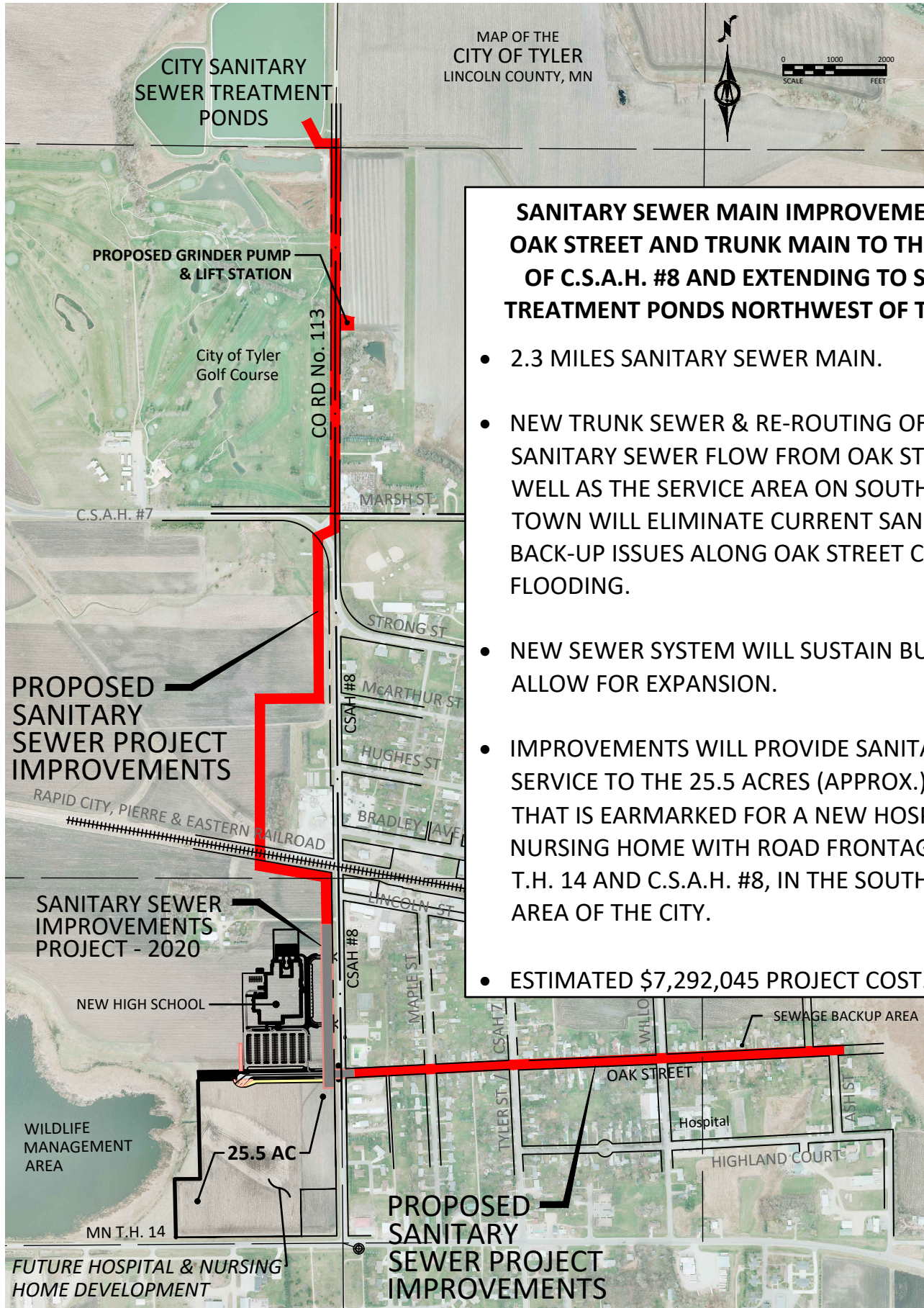
The City of Tyler needs to make significant repairs to its sanitary sewer collection system which will require assistance in the form of grants from the State of Minnesota to make the project affordable. Tyler has median family incomes that have been at 65.5% of the statewide average which adds to the difficulty of implementation. The City of Tyler has taken on significant debt in the past to maintain its utility systems and is at the point where outside assistance is necessary. The City has adopted sanitary sewer rates that exceed the Minnesota Public Facilities Authority's affordability threshold for its grant programs.

In summary:

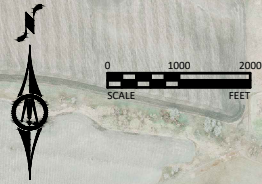
- 1) The proposed sewer main replacement will put the City over \$10,000 in debt per capita (\$5,000 is considered high by credit rating agencies) when added to its existing debt, which is mostly PFA loan funding associated with a previously implemented water project.
- 2) That level of debt will significantly impair the City's ability to obtain financing for other projects. The state and federal government may ultimately be the only options for project financing which will limit the type and scope of projects that can be undertaken.
- 3) In 2022 the City increased its wastewater rates to a level that exceeds the affordability threshold that PFA uses for the WIF Grant Program (prior to project implementation). The City is doing its part financially to support the project.
- 4) The provision of drinking water and wastewater services are core functions of local government in Rural Minnesota. Inflation in project costs has outpaced growth in income, and projects are becoming more difficult to implement each year.

Thank you for your consideration of this request!

The City of Tyler is an equal opportunity provider and employer.



MAP OF THE CITY OF TYLER
LINCOLN COUNTY, MN



SANITARY SEWER MAIN IMPROVEMENTS IN OAK STREET AND TRUNK MAIN TO THE WEST OF C.S.A.H. #8 AND EXTENDING TO SEWER TREATMENT PONDS NORTHWEST OF THE CITY

- 2.3 MILES SANITARY SEWER MAIN.
- NEW TRUNK SEWER & RE-ROUTING OF EXISTING SANITARY SEWER FLOW FROM OAK STREET AS WELL AS THE SERVICE AREA ON SOUTH SIDE OF TOWN WILL ELIMINATE CURRENT SANITARY BACK-UP ISSUES ALONG OAK STREET CAUSED BY FLOODING.
- NEW SEWER SYSTEM WILL SUSTAIN BUSINESS & ALLOW FOR EXPANSION.
- IMPROVEMENTS WILL PROVIDE SANITARY SERVICE TO THE 25.5 ACRES (APPROX.) PARCEL THAT IS EARMARKED FOR A NEW HOSPITAL & NURSING HOME WITH ROAD FRONTAGE TO MN T.H. 14 AND C.S.A.H. #8, IN THE SOUTHWEST AREA OF THE CITY.
- ESTIMATED \$7,292,045 PROJECT COST.

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