CITY OF SAINT PETER, MINNESOTA
AGENDAS AND NOTICE OF MEETING

Regular Workshop Session of Monday, October 21, 2019
St. Peter Room – Community Center – 5:30 p.m.
600 South Fifth Street

I. CALL TO ORDER

II. DISCUSSION
   A. Refunding Bonds
   B. Recycling Contract Update

III. ADJOURNMENT

Office of the City Administrator
Todd Praffke

TP/bal
October 15, 2019

City of Saint Peter
Sally Vogel, Director of Finance
227 South Front Street
Saint Peter, MN 56082


Honorable Mayor, Council Members, Administrator Prafke, and Finance Director Vogel:

The purpose of this letter is to provide information regarding the potential to refinance the 2012A, 2013B, and 2013C bonds previously issued by the City. We have been working with staff over the past several months discussing alternatives, and at this time we are recommending that the City Council consider the adoption of a triggering resolution initiating the process to negotiate the sale of refunding bonds.

Background information on each of the bond issues being discussed includes the following:

**GO Sewer Revenue Refunding Bonds, Series 2012A (refinance of 2003 USDA loan):**
Principal Refinanced: $1,530,000
Estimated Issuance Cost: $57,000
Final Maturity: 1/1/2043
Call Date: 1/1/2020
Projected Net Present Value Savings: $103,000
% of Refunded Principal: 6.78%

**GO Tax Increment Financing Bonds, Series 2013B (funded North 3rd Street Improvements)**
Principal Refinanced: $675,000
Estimated Issuance Cost: $29,500
Final Maturity: 2/1/2033
Call Date: 2/1/2020
Projected Net Present Value Savings: $40,000
% of Refunded Principal: 5.95%

**GO Municipal State Aid Bonds, Series 2013C (funded Washington Avenue Link)**
Principal Refinanced: $2,890,000
Estimated Issuance Cost: $56,000
Final Maturity: 2/1/2028
Call Date: 2/1/2020
Projected Net Present Value Savings: $81,000
% of Refunded Principal: 2.8%

**Method of Sale:**
Because a refunding such as this is sensitive to changes in interest rates, it is an advantage to be able to act quickly to changing market conditions. If it is ultimately determined to be appropriate to proceed, the Council may wish to consider the use of a “triggering resolution.”
triggering resolution approves the issuance of refunding bonds by negotiation and authorizes the Mayor and City Administrator to sign a bond purchase agreement if a certain target level of savings can be achieved. If savings targets are met, the Council then ratifies this action at the next regular council meeting.

I have prepared a triggering resolution for Council consideration if it is determined to be appropriate to pursue the refinance of these issues. The net present value of savings that I have used in the draft resolution is $75,000 for the 2012A Bonds, $20,000 for the 2013B Bonds, and $60,000 for the 2013C Bonds (all net of issuance cost). The Council may modify the attached resolution to include a higher or lower level of savings in order to trigger a sale.

A risk that should be considered if it is determined to be appropriate to proceed is that associated with the expense of having the bonds rated. A bond rating will need to be obtained in advance of a pricing commitment for the purchase of bonds. If interest rates were to go up in the time period between the completion of the rating process and securing the pricing commitment, the City would still likely be obligated to pay for a portion of the rating cost which would be approximately $14,000. By using a triggering resolution, this risk is reduced as the pricing would occur very soon after the rating is obtained (likely within a day or two).

I will be available at the October 21, 2019 City Council work session to discuss this information in detail. Please feel free to contact me with any questions in the interim.

Sincerely,

Shannon Sweeney, Associate
David Drown Associates, Inc.
TO:        Honorable Mayor Zieman
            Members of the City Council

FROM:      Todd Prafke
            City Administrator

RE:        Contract for Refuse and Recycling

ACTION/RECOMMENDATION

None need. For your information and input only.

BACKGROUND

Members may recall your discussion from October 7th relative to your contract for services from LJP. That contract is in place until June 30, 2023. Members discussed a number of options and directed staff to work with LJP to come up with a plan that in order of priority provides for:

- no additional cost to the City of customers,
- both refuse and recycling services with little change

Based on negotiations with LJP we are currently working on a contract amendment that would provide for no change in cost and go back to every other week recycling. We are still working on the logistics of a change over including the timeline, use of additional curbies or carts, and a few other small items. This change would not impact the term of the contract or the cost per resident.

My memo from your last workshop is attached. That memo discusses many of the issues and possible paths you could take. It is important to note that you do not need to do anything. Again, you have the ability to terminate the contract at any time with 120 days notice (an option which was discussed in the memo and at your last workshop).

My goal for your meeting is to solicit any additional information you may want prior to a contract modification coming before you for a vote.

Please feel free to contact me if you have any additional questions or comments.

TP/bal
Memorandum

TO:         Honorable Mayor Zieman
            Members of the City Council

FROM:      Todd Prafke
            City Administrator

RE:        Refuse/Recycling Contract

ACTION/RECOMMENDATION

None needed. For your input and discussion.

BACKGROUND

Members may know or recall that back in 2013 the City of Saint Peter solicited proposals related to provision of refuse and recycling services for residential customers within the city. A contract was awarded to LJP Enterprises Waste and Recycling (LJP) and that contract started on the 1st of March in 2014. The original contract was for five years.

As you may also recall, the contract was extended to June 30, 2023 based upon a negotiated change in the contract which changed recycling to an every week status from an every other week status. At that time it was hoped that the change would increase the amount of recycling that took place, but maybe more importantly, decrease the weight of refuse or garbage that was placed into curbies and ultimately put into the landfill, thus saving landfill cost. While we have seen recycling numbers plateau and in some instances go down, we have seen our garbage or refuse weight numbers continuing to increase.

Over the last 6 to 12 months there have been substantial changes in the recycling market place in not only Minnesota, but also within the United States and internationally. Geopolitical politics have impacted how much, where, and what can be produced with recycled materials. These changes are now impacting our current system here within Saint Peter. Previously recyclable materials may have had some value to the recyclers or they would at least break which meant recyclers would take the material without charge. That structure of the marketplace has ended and frankly I don't see a swift turnaround in the near future.

Our contracted hauler is now facing additional costs to provide for the disposal of the recyclable materials. While recyclers may still take the materials, now they want to be paid for this service where previously it had value for our hauler or was at least taken for free.

LJP has come to us to look at new ways to offset the increased cost that they are facing due to the change in the recycling environment. The discussions have been positive and cordial, but it does come down to the fact that they are looking for additional money to provide the same or similar service we enjoy currently. Again, it's based on those significant changes within the recycling market place.
This puts LJP in a rather tough spot. Our contract stipulates very clearly that they are required to take the materials that are outlined in the contract. Any additional costs that they incur as a part of that really fall on their shoulders. However, the contract also stipulates that either party can provide a 120 day notice to terminate the contract. While LJP has not threatened to do that, if they continue to lose money on the service provision in the amounts they have expressed, (in excess of $3,900 per month), at some point it appears they may be left with no choice but to exercise their 120 day termination right and we will be left with a challenge to continue to contract for services from a dwindling number of service providers.

Your City Attorney has reviewed the contract carefully and agrees that LJP is required to provide the service and dispose of the materials as stipulated and that both the City and LJP have the ability to terminate the contract with a 120 days notice.

This puts us in a very interesting position of having opportunity to work with LJP and renegotiate a contract or service levels or changes to programs or to allow them to continue to lose money and at some point potentially exercise their 120 day termination clause. We could also use any time we have to develop a new system and look for other service providers either through a contract bid or an RFP process as we have done in the past. I want to stress our discussions with LJP have been very positive and we have continued to look at this issue from the perspective of a shared problem.

Based on the Council Workshop of September 16th I have done the following:

- Asked LJP to provide a written proposal related to the current contract. They have provided two separate proposals which are attached.
- I have reviewed contracts of other cities in the area (Mankato, North Mankato, Le Sueur, and Nicollet) which include haulers such as LJP, West Central Sanitation, and Waste Management. I have reviewed those contracts with an eye towards three primary issues:
  - Systems - How do the handle refuse and recycling, who pays for what, who owns the carts, types of additional services and other items. This is done to assess whether better pricing might be negotiated, whether giving notice and bidding may help us, and as we look to negotiate or bid, what type of system options are available in our area.
  - Cost. A review of the cost that other contracts provide for and how cost increases in fuel and other items are handled.
  - Terms. Length, cancelation provisions, and how cost changes are addressed.
- I have discussed this issue with Nicollet County Administrator Krosch and asked for access to the funds that your residents pay each year as a special assessment for solid waste. Ryan indicated the County was forming a committee to discuss the end of their contract with North Mankato and the County's next step. He indicated he would ask that our request be on their agenda, but the committee is not in place yet. While the County has reserves in their solid waste fund, I would not expect them to provide any funds.
- I have discussed with the North Mankato City Administrator the option of taking our recycling to the County designated Recycling Center located in North Mankato. This would theoretically eliminate our current cost dilemma; however, North Mankato would have the right to reject our loads if contaminated. If rejected we would then rely on Nicollet County to enforce their contract with North Mankato and I don't think that either party would be in a hurry to solve that problem. This might be especially true as their contract is over at the end of 2019.
There are a number of ideas that could be explored. Those ideas include:

- A modification to our system potentially going to every other week recycling. This would reduce LJP staff time and fuel costs thereby reducing the overall cost for providing recycling service. This could have the impact of reducing the cost of service almost in half. We could undertake additional education to improve the quality of the recyclable materials LJP receives. By that I mean doing a better job in educating our residents about what they can and cannot place within their recycling curbies. While it’s difficult to project the savings additional education could provide, it is likely relatively small compared to changing back to every other week recycling which likely saves around $25,000 per year.

- Connected with this we could be more diligent in charging our users who fail to meet the standards (putting things in the curbie that are not clean or are not recyclable). This would likely improve our material quality but is probably an exchange in value meaning it cost as much to “police” as it helps.

- Another idea might be to modify our contract with LJP to provide for a “commodity fee” or use a “fuel surcharge” concept (e.g. if the value of the materials go up our costs go down and visa versa). This would mean that our recycling bill would fluctuate each month depending on the value and the amount of materials recycled. Overall this type of modification would still provide for increased costs to our system.

- We could push for financial assistance from Nicollet County. As members know all taxpayers in Saint Peter pay Nicollet County an annual waste tax of slightly more than $21. Previously that tax has been used, at least in part, to pay for a recycling center in North Mankato that Saint Peter residents have received no benefit from. The County pays a little over $100,000 per year to maintain that facility which will be closing at the end of this year. Even with the facility closed Nicollet County will continue to receive those taxes. We could appeal to Nicollet County and ask them to use some of those resources to offset the increase in cost in our system. This idea has a number of political ramifications that I have not fully explored but have thought a lot about.

- We could plan to provide notice to LJP of our want to end the contract. We would then determine system and bid as we have done in the past. While your contract says we have to give 120 days notice we could give longer notice. This would put LJP in the position of having to accept or give you a different timeline but greater than 120 days.

- You could look at getting out of this business (residential garbage and recycling) all together. We would strongly advocate against this option for dozens of reasons but it is something you can do. This would mean changing your ordinances and allowing individual property owners to contract on their own for services. If you want to discuss this more please let me know as the options here are many and messy.

- You could make a LJP a counter offer.

- You could do nothing. Since you have not received notice of contract termination you really don’t need to do anything at this point. However, please note that 120 days is not
a lot of time to determine system bids and/or change our curbies, so if you think you might “do nothing” I would suggest we start to think about some of the issues outlined in the “system” discussion.

There may be other ideas you wish to explore that we have not thought of.

My advice is that you first decide if you are still unhappy about the previous extension and if that should be the basis for any decision moving forward. Fairness, cost and concern about broken promises and trust seem to be the basis for that discussion. So if this is a way to get out of a deal that members may have believed is not good for your customers from the beginning then I would suggest a strategy that is:

- Define or redefine the system you want;
- Draft a bid contract;
- Give notice on a timeline that feels good for you and makes LJP respond.

If you do not feel that the current agreement or extension was unfair, too costly, and/or promises were broken then:

- Determine if you want to accept either written offer on the table. If not we can do nothing or make a counter offer. After those two options the path forward gets to be much more situational and nuanced.

So from a process standpoint here is how I think it looks:

- Any change to the agreement must come before the Council for a vote.
- Any termination to the current agreement must come before the Council for a vote.

My goal for your meeting is to discuss the current situation, to provide additional data around the ideas and thoughts that are expressed within this memo, and to solicit input from the Council as to the direction you think might be best for cost and stability within the system we currently have. My further hope would be for the Council to give direction with one voice as we move forward. If that does not seem possible then I will work to narrow the choices to a more manageable number, preferably two, and bring a choice to the Council for a discussion and ultimately a vote. No timeline is set for that action at this point.

As you know, negotiating with one voice is a challenge on two fronts, first finding that one position (one voice) and second negotiating with another party.

Please feel free to contact me if you have any questions or concerns on this agenda item.

TP/bal