

PUBLIC WORKS AND UTILITIES COMMITTEE

10-0028R

RESOLUTION AUTHORIZING LOAN GUARANTY AGREEMENTS WITH LENDING INSTITUTIONS PERTAINING TO THE PRIVATE SEWER SERVICE PROGRAM.

CITY PROPOSAL:

RESOLVED, that the proper city officers are authorized to execute agreements in the form of that filed as Public Document No. _____, with various area lending institutions to foster loans by such institutions to finance the portion of private sewer service repair, replacement or relining not funded by the private sewer service grant program and providing restricted guaranties of such loans to participating lenders.

Approved for presentation to council:

Chief Administrative Officer

Approved as to form:

Approved:

Attorney

Auditor

PW&U/ATTY REA:cjk 1/5/2010

STATEMENT OF PURPOSE: The purpose of this resolution is to authorize the City to enter into loan guaranty agreements with area lenders in order to encourage them to make loans to private property owners who are required to repair, replace or reline their private sanitary sewer lateral lines in order to finance the portion of those costs not covered by the city's grant program.

As councilors are aware, the city is under a consent decree with the EPA to take steps to eliminate overflow from its sanitary sewer system into Lake Superior and that one of the steps the city is committed to is the reduction of I&I into the system by reducing inflow from cracked, broken or deteriorated sanitary sewer laterals. To that end the city has instituted a program to detect lateral lines that are in need of repair, replacement or relining and to require the owners of the property to correct the condition. As a companion to this enforcement effort, the city has established its private sewer service grant program pursuant to which the public will fund 80 percent of the cost of the work up to \$4,000.

Unfortunately, in many cases, this will leave a certain portion of the cost to be paid by the owners without assistance which could be a significant amount.

In order to assist in bridging this gap, the city sought the assistance of local lending institutions, seeking to encourage them to lend the "private share" of the cost at reasonable rates directly to the owners. Local lenders were willing to assist in this capacity but there were practical problems endemic with loans such as this. First the loan amounts were relatively small and so the cost of extending the loans was disproportionately high. Second, security for the loans would often be subordinated to first mortgages held by other lenders, making the enforcement of the secured interest practically impossible in the event of default.

The lenders were willing to simplify the process and keep the costs as low as possible if the second problem could be overcome. The agreement reached with them was that the City would provide a limited guaranty of the loans so that if there were defaults which appeared to be uncollectable, the city would "buy" the defaulted loans from the lender at par so that the lender would not be stuck with both defaulted, uncollectable loans and the costs of attempting collect on them. However, the city's guaranty would be limited to the funds in the clean water fund and only to that fund. This would prevent the city from running afoul of its borrowing restrictions.

The administration has made conservative projections based on reasonably anticipated default rates and anticipated income to the clean water fund and has determined that this fund can support the loan guaranties without jeopardizing the other uses to which that fund has been committed.