



Hutchinson City Center

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Dear Hutchinson Resident,

As you are probably aware of, the City Council is proposing a temporary ½% local sales tax to help pay the debt on the new water plant and the recent upgrade to the sewer treatment plant. Since city voter approval is required this question will be on the ballot as part of the November election. If it passes, authorization from the State will be sought during the upcoming legislative session.

While these plants are working very well and as designed, the economic downturn and its effects locally has caused usage to be significantly less than what was anticipated. Because of that revenues are also down significantly. This reduction in revenues is, in turn, impacting our ability to pay the debt on the plants and set aside sufficient reserves for future repairs and replacements of equipment and infrastructure.

Enclosed is some information to help explain the background on the projects, the current need and why a local sales tax makes the most sense. This is a very important issue for the city and the region. Locally it will certainly affect everyone one way or another. Because of that we felt it was important to share as much information with you as possible.

We hope you will find this helpful. If you have any further questions please contact any of the City Council members. Questions can also be directed to Kent Exner, City Public Works Director, or Jeremy Carter, City Finance Director, at 587-5151.

We understand that no one wants more taxes and this is not an ideal situation, but the debt on these plants still has to be paid. After actions that have already been taken and in comparison to the alternatives of higher rates and/or higher property taxes, a local sales tax is a fair and reasonable way to address this need. We would appreciate your support on this important issue.

Sincerely,

Mayor Steve Cook
587-7108

Council Member Bill Arndt
587-6882

Council Member Jim Haugen
587-8425

Council Member Eric Yost
587-8566

Council Member Chad Czmowski
952-237-3587

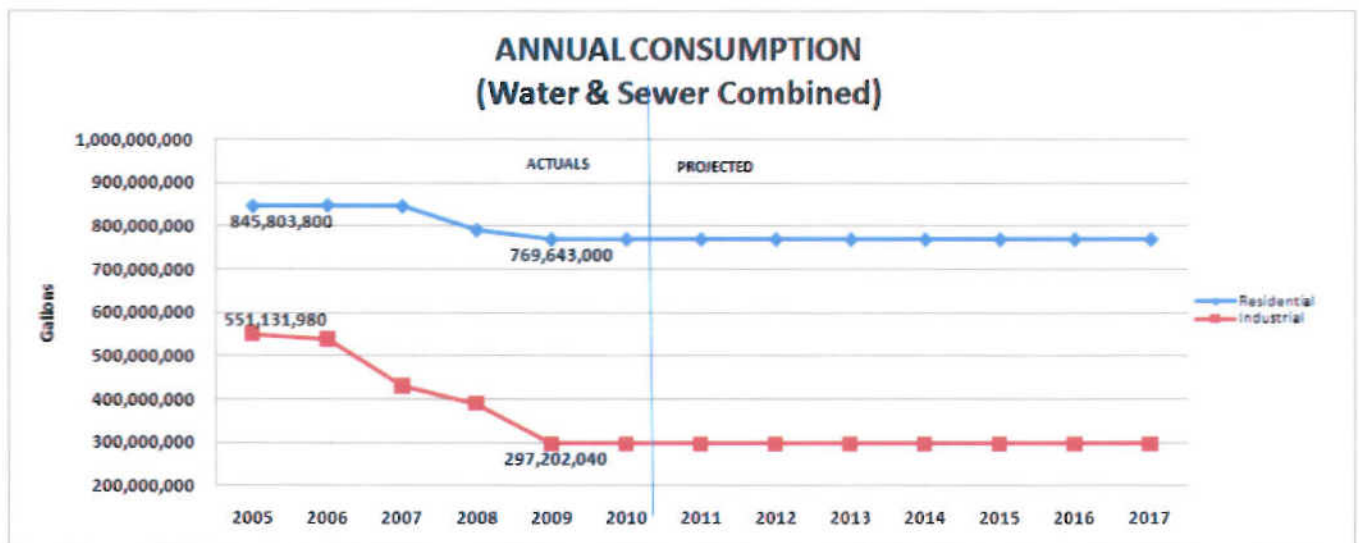
City of Hutchinson Local Sales Tax

Request: The City of Hutchinson is seeking a temporary ½ percent local sales tax dedicated to help pay the debt on a recently completed new water plant and a recent upgrade to the city's wastewater plant.

History: In 2007, the City brought a new water plant on line and in 2008 an upgrade to the wastewater plant was completed. Both projects were initiated for the following reasons:

- Improve water quality & address the natural corrosiveness of our water that was harmful to household & underground piping.
- Meet tightening environmental regulations (phosphorus, BOD, copper, hardness, etc).
- Support needs of local industries – various limits were being met and exceeded.
- Support future growth of the community – capacity was becoming an issue at times.

Problem: Outstanding debt for both plants combined is \$29.7 million (includes principal & interest). Due to the recent economic downturn and conservation efforts, water and wastewater usage is down significantly. This is particularly evident with local industries (chart below) where water usage and wastewater “loading” has been significantly reduced. Recent local business changes and job losses could compound this problem for years.



Actions already taken: The plant debt was restructured, reserves have been reduced, employees have been laid off, operating costs have been reduced by \$1,000,000/year, and rates were increased again in 2010 to cash flow.

Need: Alternative revenues are needed to:

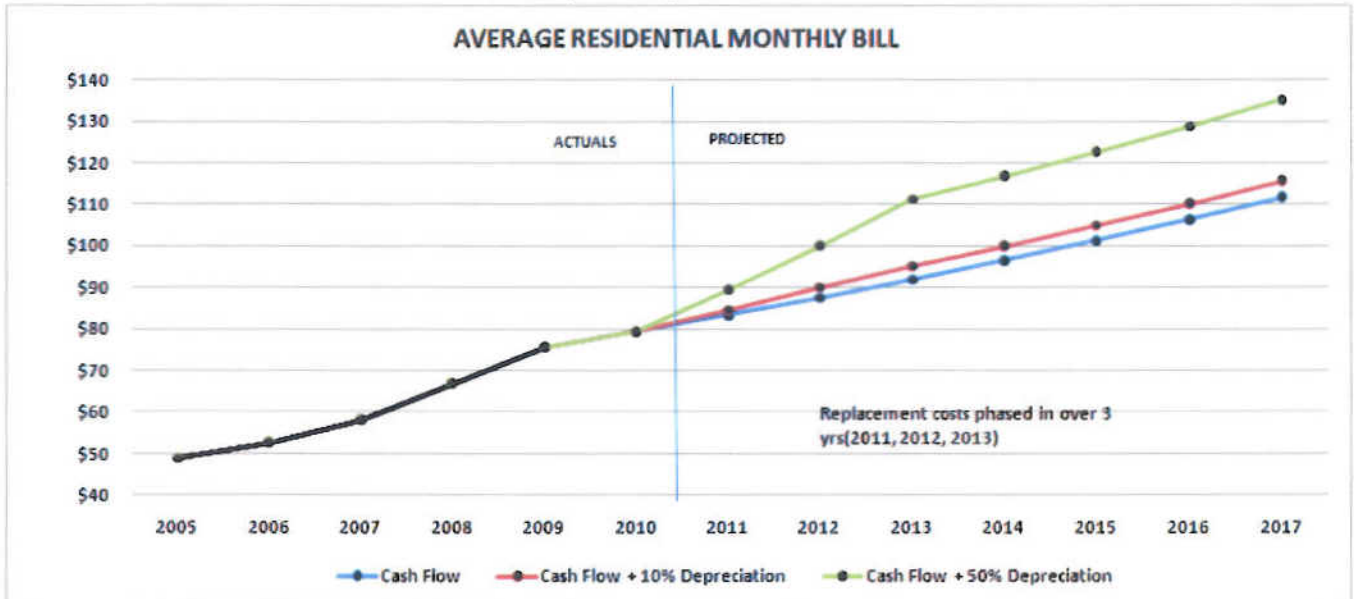
- Stabilize rates. Without the sales tax the City will have to raise rates an average of 5% per year just to cash flow basic operations. However, rates are already among the highest of comparable cities.
- Replenish and maintain adequate reserves to meet bond requirements and standards.
- Set aside some money for future replacement and renewal of equipment & infrastructure (depreciation)

Regional Benefit: This is about jobs – both retaining existing jobs and attracting new industries and jobs.

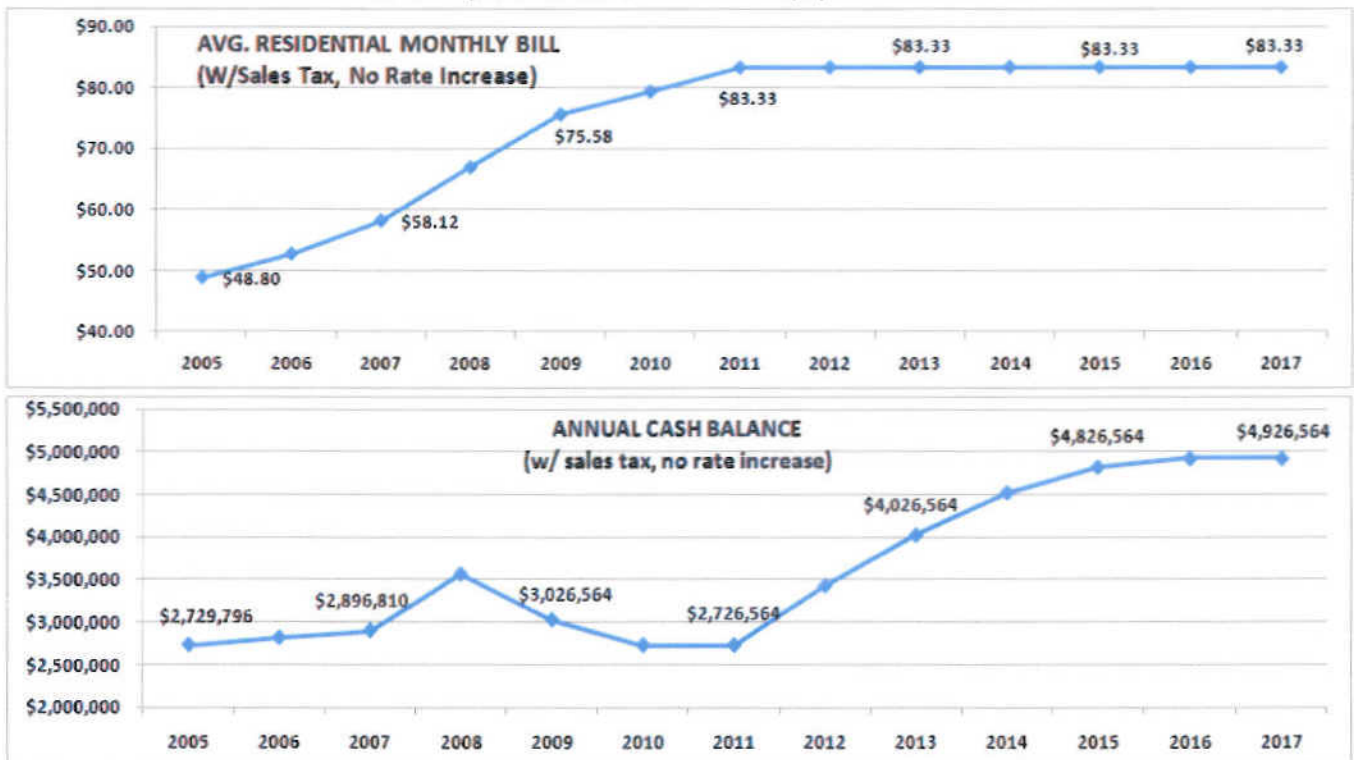
- Hutchinson is a regional center whose industrial and commercial businesses provide employment to many people from outside the community. For example, 48% of 3M and Hutchinson Technology employees live outside of Hutchinson.
- Due to significant local job losses in 2008 and 2009, unemployment rates in Hutchinson (9.8%), McLeod County (9.0%) and neighboring counties continues to be significantly higher than the state rate of 6.8%.
- Provide rate stability to help retain existing industries and their jobs.
- Provide rate stability to remain competitive to attract new industries and their jobs.

City of Hutchinson Local Sales Tax

Sales Tax Effect: A ½ percent local sales tax would provide approximately \$1 million annually, of which 25-30% is estimated to come from outside the community. Locally, this would cost an average household about \$80/year (less than \$7/month). In contrast, the alternative five percent yearly increases in rates would surpass that amount by 2013. Industrial and commercial users would see similar percentage rate increases and trends.



Sales Tax Benefit: First, the sales tax would allow rates to be more stable (top graph below). In the future, rate increases may be necessary, but would be more manageable. Secondly, reserves could be maintained at appropriate levels while funds are also set aside for replacement and renewal of equipment and infrastructure.



To Close: Hutchinson and the surrounding region have been struggling from significant lay-offs in 2008 and 2009 and the recovery will be slow. We need to do what we can to retain existing jobs and attract new ones. Limiting further increases in our water and sewer rates is an important part of that, but the plant debt still needs to be paid. Because of the significant regional benefit provided by local jobs, a sales tax is a fair and reasonable solution.

Hutchinson Sales Tax Questions and Answers:

Would the sales tax be subject to a public vote? Yes, Hutchinson voters will vote on this in November. However, the state legislature would still have to approve the sales tax.

The sales tax is estimated to generate \$1,000,000 per year. Where does that estimate come from? Hutchinson sales tax data from the Department of Revenue.

Would the sales tax revenue be used for anything else? No. The tax revenue would be dedicated solely to retiring the debt on the water and wastewater plants.

Are there examples where a sales tax has been approved for this type of use? Yes, the debt on water and wastewater facilities serving both Brainerd and Baxter is being financed in part by Baxter's local sales tax.

Will the tax be permanent? No. By state law, when the debt on the facilities is paid off the sales tax will be removed.

Is there an example of a local sales tax that went away? Yes, Willmar and Winona. It is interesting to note that after their first sales tax was retired, Willmar voters later approved another sales tax to fund some different projects. That tax is still currently in place.

How long would the tax last? The tax would end at the earlier of either eighteen years or when the debt has been paid off. Following the debt schedule of the plants, the debt would be paid off in 2029. However, in some cases local sales tax revenue has been sufficient to pay its debt off earlier than scheduled.

How were the projects originally planned to be financed? The planning for both plants was done in consultation with users which used conservative usage projections. The possibility of 25% reductions in some areas was part of that. Financing was going to be through rate increases based both on volumes and industrial loadings (materials sent to the wastewater plant). Those increases have already taken place, plus a recent additional rate increase. However, actual volumes and loadings have been significantly less than what was anticipated because of the economy, conservation measures, and local business changes.

What if use at the plants increases – won't that generate more revenues? Yes, and with the sales tax it would help offset or minimize the need for rate increases in the future. Also, it's important to understand that increased use also means increased operating expenses so some of the added revenues would be used for that. However, if revenues increase enough, some could possibly be used to help retire the debt early. Realistically, though, it will take time for that to happen and it will likely take new industries and users.

Can the sales tax be extended or expanded? That happened in the past, but the current state law (since 1999) says a sales tax must be expired for one year before a city can try for another one. However, in 2005 Mankato, Rochester and the St. Cloud area cities were allowed to extend their taxes without a one year wait, but voter approval was required in each case.

How much does the tax amount to? A half percent sales tax would equal fifty cents on a \$100 purchase. It is important to remember that the tax would only apply to items that are taxable by the state (for example not food or clothing, etc). Motor vehicle sales would be exempt, but would pay a \$20 surcharge instead.

Questions? Call your City Council members – Mayor Steve Cook, Bill Arndt, Chad Czmowski, Jim Haugen , Eric Yost

Hutchinson Sales Tax Questions and Answers:

What if the state expands the sales tax to other items? Our sales tax would apply to those items also. As a result there would be more local revenue, the debt would be retired sooner, and the local sales tax would end sooner.

Where does the estimated 25-30% of sales from outside of the community come from? This is an estimate, but it is generally supported by the 2007 Hutchinson Retail Trade Analysis done by the MN Extension Office.

Won't this drive business away from Hutchinson? That is doubtful since all regional centers around Hutchinson already have their own local sales taxes. These include St. Cloud and surrounding cities (Waite Park, Sauk Rapids, Sartell, St. Joseph, and St. Augusta), Willmar, New Ulm, Mankato, Minneapolis, St. Paul, and the metro counties.

Where does the estimated \$80 annual cost per household come from? The MN Department of Revenue.

Are there any other options? After cutting expenditures (already done), rate increases (already done and we don't want to go higher) and the sales tax, the only other option would be raising taxes. However, it would take a 23% general fund tax levy increase to raise the same \$1.0 million.

What else has been looked at? An effort was made to obtain a \$1 million (or more) federal grant for the wastewater plant, but that was ultimately unsuccessful. The debt has already been restructured. Operating and process changes have been looked at extensively to reduce costs. Prospects of bringing in other waste streams and attracting more intensive water users (industrial, commercial, medical, or consumer related) are also being looked at. We have also shifted some water/sewer infrastructure improvement costs to our annual improvement bonding. That helps the funds, but reduces the amount available for street repair projects so it is not ideal especially long term. The crux of it is the economic recovery will be slow and because of the local business changes this is a long term issue. There is no quick fix and the sales tax is really the best option.

Doesn't the city have other reserves? Yes, but nothing to this extent and those reserves are set aside for other purposes. Some are set aside to help pay for city expenses during the year until other revenues come in, such as property taxes and state aid (both received twice a year). Others have been set aside to help us deal with the volatility of state funding. Still others are set aside as part of our debt management plan for improvement bonding projects and help us buy down the tax levy used to support those projects. There really are no other pots of money.

Again, what will the sales tax be used for? All of the sales tax revenue will be dedicated solely to retiring the debt on the new water plant & upgraded sewer plant. Rates will be used to fund operations and the rest of the debt.

How would you sum this all up? This is about jobs – maintaining our existing jobs and attracting new jobs. Hutchinson and the surrounding region are blessed to have some outstanding employers in Hutchinson. Plus, with the help of the federal government and the state, the city has recently made a major investment in the expansion of our industrial park to help us attract new jobs. However, we are competing with other cities, other states and even other countries for both. Since our water & sewer rates are already high, limiting future increases will be important to help make these efforts successful. That will affect not only Hutchinson, but the surrounding region as well.

What's the bottom line? Really it is quite simple. In the end the debt on the plants has to be paid and we have two choices - let it all fall on local residents and rate payers, or bring in some money from outside the community from those who also benefit from the facilities, even if only indirectly, and help take the pressure off rates. Because of the significant regional benefit provided by local jobs, a sales tax is both reasonable and fair.

Questions? Call your City Council members – Mayor Steve Cook, Bill Arndt, Chad Czmowski, Jim Haugen , Eric Yost