

**STAFF SUMMARY  
CITY OF MINNETONKA  
CITY COUNCIL STUDY SESSION  
MONDAY, APRIL 14, 2008  
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**Council Present:** Dick Allendorf, Bob Ellingson, James Hiller, Terry Schneider, Tony Wagner, Brad Wiersum, and Mayor Jan Callison.

**Staff:** John Gunyou, GERALYN Barone, Merrill King, Darin Nelson, Brian Wagstrom, Lee Gustafson, Steve Lillehaug, Virg Herrmann, Dave Johnson, Kelly O'Dea, Julie Wischnack, Patty Latham, Joe Wallin, David Maeda

**1. Capital Improvements Program**

Major Road Project Funding: Gunyou presented an overview of the major issues, and distributed information from the Engineering Department showing city, county, state, and federal funding for street improvement projects over the last fifteen years. He said recent community surveys show improvements in resident rankings of streets since the program started.

Wagner noted MSA funding has remained around \$1.5 million during the entire time. Gunyou said a decade ago most of the MSA funding was spent on local streets, because there were not a lot of county or state projects in the city. Now with the number and cost of state and county projects in Minnetonka, more of the city's MSA funding must go toward the local match requirements of those projects.

Gunyou said staff is proposing to use MSA bonding only if there is a cash flow need resulting from large project funding requirements, like happened with the Shady Oak Road project. No change in funding for local street rehabilitation is proposed, and the city would continue to manage road funding as much as possible on a pay-as-you-go basis.

Gunyou said staff also looked at a number of alternatives like assessments. He explained special assessments are more commonly used for road improvements in developing areas, because state law makes it more difficult to assess for redevelopment. To withstand a legal challenge, the level of assessment needs to be lower than the market value added to the property as a result of the improvement. To justify the assessment, the city needs to demonstrate a direct relationship to the benefit of the improvement.

Gunyou explained that special assessments are typically applied uniformly to the whole project area. For undeveloped properties, assessments can legally be deferred until the properties are developed, but this methodology is not available for previously developed properties, like those in the 394 corridor and Opus areas. He suggested that the city could still use a method to fairly allocate the assessments to those most directly benefitting. For example, traffic counts or trip generation might be used to establish a baseline, and then assessments could

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be allocated based on the added benefits to the existing properties. Similarly, if a developer proposed a project that would increase the trip generation, there could be a surcharge tied to the approval.

Wagner noted two of the top priority projects, I-394/Ridgedale interchange and the Bren Road/Highway 169 interchange are out of the city's control, because there needs to be either federal or state approval. Gunyou said having a bonding program in place would give the city more flexibility to meet the needs in a timely way when the approvals are received.

Wagner said there are projects specific to economic development in the city. He asked if tax abatement could be used to provide funding. Gunyou said abatement is possible, but doesn't generate much revenue without the county and school district also agreeing to abate their shares. Another consideration with using tax abatement is that the money would come out of the city's general fund. Assessments would be charges over-and-above the current tax levy.

Ellingson asked if the city borrows money to pay for roads would most of the money be borrowed up front or would it be borrowed over a period of time. Gunyou indicated the proposal is to only borrow money when it is necessary for project cash flow. The spreadsheets illustrate how a worst-case scenario might be accommodated if significant matching funding is needed earlier than expected.

Hiller asked how essential the Ridgedale interchange is to the redevelopment at the mall. Gunyou said it depends on the scope of the redevelopment. A major part of the comp plan is that new development will be focused in the Opus and I-394 corridor. In order for that to happen, the infrastructure will need to be provided. Callison added the infrastructure is also needed to meet the Met Council's expectations for housing.

Wiersum asked if other neighboring communities assess businesses in the same way and at similar rates as was being discussed. Gunyou said Minnetonka is unusual in that the city has not historically special assessed for roads. He said the city's financial advisor indicated the rate being discussed was in line with other cities.

Allendorf asked for clarification on how the mechanics of bonding would work. Gunyou said MSA bonds would only be sold when the money is needed for cash flow. The 15-year bonds would carry the city's AAA rating. Allendorf asked if the city was getting into a program where it would always have debt. Gunyou said the program could be structured so the debt could be paid down earlier than scheduled as funds are available. The revenue from the MSA bonds could only be used for MSA purposes, and not diverted for other general fund purposes.

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Wiersum asked if there was any risk to the city's AAA bond rating. Finance Director Merrill King said the MSA bonds would not affect the city's bond rating.

Wagner said since interest rates are low it might make sense to borrow the money now to build up a cash reserve. Gunyou said there are arbitrage restrictions that prohibit cities from selling bonds and investing at a higher rate to make money. Wagner said he had a concern about assessing a smaller business that has been in a location for a number of years and won't see much benefit to a road project. Gunyou said differential assessments could be set to address that type of concern. Wagner agreed the city needs to look at how to maintain long term viability for businesses in the areas identified in the comp plan.

Hiller said he was concerned if the city implements the program that most of the capacity will be used up by the bonding. He asked staff to review calculation details and additional scenarios with him.

Wagner asked if there are other major interchanges like Highway 7 and Highway 169 where the trip generation should be established to help plan for future assessments. Gunyou said the city doesn't expect the magnitude of road improvements at that interchange so it could most likely fit within the overall street plan and not require assessments.

Hiller said he thought bonding was the correct way for the city to pay for the projects, but because the city hasn't used bonding before, there will be a one-time quick burst of funding that would tradeoff the long-term debt that will be incurred. Gunyou said it wasn't accurate to characterize the funding as a one-time infusion that would sacrifice future capacity, but rather, the proposal was for an ongoing, managed borrowing program.

Hiller asked if there is a foreseeable day where there will be no future debt. Gunyou said that was uncertain, because of the timing of projects. If major projects do not occur as soon as depicted in the worst-case scenario, the city might be able to avoid borrowing, or even pay off any outstanding bonds sooner. As an example, he cited the city's utility fund in which debt is incurred to pay for improvements, and is paid down over time. He emphasized that properly structured borrowing is a responsible financial management technique. The city's proposal is different than what the state was considering, which was to rely solely on bonding to pay for road projects.

Schneider said he isn't against bonding but doesn't see it as a panacea because in essence it will cost the city more money to do the same thing as it would if the city had the flexibility and resources. There are three different elements the city has to work with: 1) bonding 2) local funding- property taxes and assessments; 3) prioritization and scheduling of projects. He said the city should thoroughly research options to pay for the projects with local funding including creative local

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assessments and tax abatements. The city also has to be more prudent in how it schedules the projects so they are spread out over more time if at all possible. In a worst case scenario, bonding can be looked at as a mechanism of last resort. Gunyou agreed that bonding costs more in the long run, and should only be used as a last resort. He said the city doesn't often have much flexibility over scheduling of projects because of the state and county partners involved. Schneider said the city does have the flexibility of saying no to projects until the funding is available.

Wiersum agreed bonding should be avoided if possible. The city needs to have sufficient financial flexibility to avoid having to come up with the funding for a needed project or forgo more funding by postponing the project.

Schneider cautioned against the trip generation analysis approach. He said a couple of communities that have tried the approach have been burned. If used, it is likely it will be classified as a transportation utility. King said the city's consultant framed it as a benefit, and thought it would be legally defensible. Schneider said the approach did not work for the city of Eagan. Gunyou said the city could always special assess based on some other mechanism. For example, special assessments might be allocated in concentric circles away from the improvement. Separate from that, trip generation could be used to calculate surcharges or supplemental funding required of those projects that precipitate the need for the improvement.

Ellingson said a person doesn't pay for a house in two years. He said it has been a luxury in the past that the city has been able to use the pay-as-you-go approach for streets. The state, county and city no longer have the cash flow to use the pay-as-you-go approach, and it is realistic to spread out the costs, because roads are a capital asset that will last for a long time.

Allendorf said he is not against bonding, but wants to use it as a supplement to other funding. He is concerned that when government starts a program like this, it works so well that it perpetuates itself. The program never ends because somebody comes along to spend the money in a creative way. He said he supports the program, but noted the council is making a momentous decision. No previous council had gotten into bonding for roads.

Callison said the discussion indicated staff should continue to look at the program and develop ideas to be brought back to the council. She said the city has reached a point where it has to look at bonding. She agreed with Schneider that the city should look to see if projects could be pushed back, or engineering standards reconsidered to continue the pay-as-you-go approach as much as possible. She said one concern is that the eventual policy be consistent and uniform.

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In response to Ellingson's comments, Schneider said the house buying analogy doesn't quite fit. A person doesn't have the money to pay for a house all at one time so borrowing is needed. In the case of roads the revenue to pay for the bonds is defined by the MSA requirements. If the city wants to pay for the big projects upfront, a third of the money would need to be spent. The city thus would get less for its money. Managing the bubble to spread the costs out over the entire period increases the benefit of the MSA funds.

Ellingson replied the city is borrowing money at low interest rates and the cost to build the roads might be increasing faster than the interest rates. It might be cheaper to pay up front by borrowing money at a low interest rate than to postpone a project and see the costs inflate. He said the city has to determine the cost of borrowing the money up front and paying interest over time against continuing the pay-as-you-go approach.

Wagner said many roads in the city will need repair and were not part of the evening's discussion. Gunyou said staff tried to determine what major roads would likely be done in the next 20 years, and based the recommend strategy on that list. City Engineer Lee Gustafson said excess capacity in MSA will add up each year. Some of that money could be used to redo other streets. Gustafson said the city needs to continue to look at the road program every year to see what needs to be addressed.

Hiller said that once the city gets into bonding, it needs to consider possible implications down the road. He said he agrees the city needs to look at using bonding.

Wiersum said his neighborhood falls into the new and rehabilitated category but the roads appear to be in poor shape. He said the thin overlay program is an excellent program, but he anticipates that a lot of the areas shown to be in good shape on the map will need an overlay in the next few years. He said the program is very cost effective.

Callison said she agreed with Schneider that the staff should continue to look at abatement as a possibility.

Gunyou summarized the discussion, saying the city has traditionally invested a certain amount in roads every year, and has stepped up that funding in recent years. He said the road funding issues facing the city are manageable. The local street thin overlay and rehabilitation program is funded and working. However, future cost and timing challenges exist with the major county and state projects in Minnetonka. The most desirable approach would be for the city to continue to invest the same amount every year, but because there are \$3 million to \$6 million bubbles from time to time, periodic bonding may be needed to insure that local match funding is available when it its needed.

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Gunyou said he heard council say that the city should take a responsible approach to borrowing, only issuing bonds as a last resort, and paying off the debt as soon as possible. Bonding would be used as a cash management mechanism, rather than as an ongoing program. The next step is to come back to council with a debt issuance plan to repay the temporary loan approved for the first segment of Shady Oak Road. He noted that the Ridgedale Drive interchange would be a good test case to put together an assessment and abatement program.

Schneider said he has always been skeptical about the benefits of reconstruction of Ridgedale Drive as opposed to the large cost. He said the city should look at all the intersections in the area to see if there are other ways to get more capacity for less money.

Williston Center: Gunyou presented a general overview of the options, ranging from a completely new facility that would substantially improve functionality to a lower cost remodeling that would address the most significant shortcomings. The recommended \$2.4 million option could be funded through available CIF resources and would not require membership rate surcharges. More substantial renovation would require the issuance of bonds, fee increases and a property tax levy. The new facility would require a referendum.

Schneider said he is inclined to go with the staff recommendation plus a modest additional amount of funding, perhaps another \$600,000. He said the city can get its value out of the recreational benefits and increased membership for the \$2.4 million cost. He said there are opportunities to increase revenue with a slightly better facility.

Wiersum said he could support the \$2.4 million upgrade plus an additional 20 percent. He said Williston is a functional fitness center, not a place where people go to be seen. It is a cost effective amenity for the city's residents. He said the center could be made nicer without dramatically increasing fees.

Wagner said he supports the staff recommendation. He said if there are tweaks that can be made to improve the center, he'd be willing to look at them.

Ellingson said it would fine to go with the \$2.4 million option.

Allendorf said the Williston Center is not a Lifetime Fitness Center, but an adjunct to the city's recreation program. He said he could support the staff recommendation as well.

Hiller said the \$2.4 million option seemed a little tight and the renovation seemed minimal.

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Callison said she would like to see the staircase widened with an additional \$500,000. She said people accept Williston for what it is and it would be appropriate to invest in it.

Allocation of 2007 funds: Gunyou explained there was a greater than normal surplus of revenue over expenditures at the close of 2007, largely due to permit fees from the UHG building and also, interest earnings. Because the overage is nonrecurring, staff suggests only using the funds for one-time purposes. A portion of the funds should be reserved to help the city adjust to any actions the state might take as it balances the latest budget shortfall.

Gunyou outlined how the remainder could be used for big ticket, nonrecurring capital items. As one example, he noted the Shady Oak water play area has serious safety issues that need to be addressed. The cost to replace the area would be \$500,000 to \$600,000, so staff is suggesting a \$375,000 non-water community play area project, of which Hopkins would pay one- third.

Ellingson noted that currently there is a water element in the play area. Gunyou said that is difficult to maintain since it has to be chlorinated and controlled. The water element would be eliminated under the new proposal.

Allendorf said a couple of years ago the state auditor looked at city budgets and said that cities had too much money in reserve. King said the city is at the lowest level of the auditor's recommended range, and when the budget goes up, more has to be added to the reserve to maintain the same percentage.

Hiller asked the schedule for the Shady Oak project. Gunyou said it is scheduled for 2010. The costs would be spread out over a couple of years.

Callison called a recess at 8:17 p.m.

Callison called the meeting back to order at 8:27.

Capital Improvements Program: Wagner noted on table 2-1 the Municipal State Aid is at \$0 in 2009 and jumps to \$5.6 million in 2011. Gunyou said the table shows when the expenditures actually occur, rather than when the funds are received.

Energy Conservation Measures: Callison asked if staff has looked at geothermal options. Public Works Director Brian Wagstrom said if there is an area where geothermal could be used, the city will consider it.

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Fire Station Refurbishment: Wiersum asked what caused the damage. Gunyou said the design had butted joints rather than overlap joints, which are now leaking. Wagstrom added there were other design issues as well.

Williston Center Renovation: Gunyou noted the item would be revised based on the evening's discussion.

Parks Trails and Open Space: Wagner said at a joint Minnehaha Creek meeting there was a question about applying for grants that might be available. He said he thought some of the grants were for the Burwell House area. Gunyou said that funding is reflected in the Historical Society funding.

Off Leash Dog Areas: Wagner asked where the areas will be located. Wagstrom said the Park Board will discuss the item May 15. The board is looking at several small areas as opposed to one large area.

POST Plan Update: Callison said she thought after the park renewals there would not be a need to do the item. Wagstrom said the focus will be more on trails and natural resources. Assistant City Manager Geralyn Barone added the update also takes into account any policies and comp plan changes.

Upper Minnehaha Creek Corridor: Wagner said he still has issues with relocation and restoration of the town hall. He said during the meetings on the corridor the item has never been discussed.

Park and Trail Investment Plan: Gunyou said Parks and Trails Manager Perry Vetter is developing a phased plan, which would provide for ongoing infrastructure maintenance of the city's parks so that the parks would not need to be redone in 20 to 30 years.

Trail Rehabilitation: Wiersum said there has been discussion of paving trails. He asked if the item includes trail paving. Gunyou said this item is only for ongoing maintenance – paving is listed on the future trail links page. Wagstrom said the city will look at paving trails in areas where there is high erosion.

Miscellaneous Trail Connections: Wagner suggested the Park Board look at where there are simple trail connections that could be made. One area is by Ridgedale where he sees people walking along the street. Gunyou noted this issue will be brought back to the council this fall at a joint meeting with the Park Board. He indicated Vetter has developed a prioritization system for rating the trails and the needs for improvements. Similar to the street condition index for reconstruction planning, this more systematic approach will allow council to make better decisions about priorities, and give residents an idea when trails in their area will be done.

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Callison said one segment that is currently unfunded is on Hutchins Drive between Highway 101 and Excelsior Boulevard. The segment would link the Frasier home with 101. There is no sidewalk and the road gets narrow. Gunyou said funding priorities will be brought back at the joint meeting with the Park Board, and if funded, the segment could still be done in 2009. Wiersum agreed the segment needs to be done. Wagner said sidewalks are also needed in the Target and Byerlys area.

Allendorf said he questioned if there is enough space for a trail in the Dominick Road area. Gustafson said three options have been identified as part of the road improvements.

Self Contained Breathing Apparatus: Wagner asked if the item was related to the deployment done this year with fire station 2. Gunyou said the item relates to the joint purchasing strategy with other fire departments. Fire Chief Joe Wallin said station 2 is getting an air compressor truck. This item concerns the actual apparatus the firefighters wear on their backs. He said this item would allow the city to purchase and replace the air packs. The joint powers agreement approved by the council at the last meeting allows cities to lease the packs as an alternative to buying them outright.

Amphitheatre Sound System: Wagner noted the item was unfunded. Callison said she thought the project was a good idea. Gunyou said staff agreed it was a good idea, but concluded there were other higher priorities. Wagner said the events he has attended at the amphitheater have had sound issues. Callison said improving the sound system would benefit the community.

Technology Purchases and Upgrades: Wagner asked for clarification on the item. IT Manager Patty Latham said the item relates to backing up the city's computer system.

Local Street Improvements: King noted there is no city funding required for the TH7 North Frontage Road item. City Engineer Gustafson negotiated a state and privately funded package.

Burying Overhead Utilities: Wiersum asked if the burying of overhead utilities has turned out to be more expensive than estimated. Gunyou confirmed it has been, largely due to the price of copper. There have also been issues with the accuracy of Xcel estimates.

Woodland Road Retaining Wall: Schneider said it might be less expensive to buy the homes than to replace the retaining wall. Gustafson said the city is looking at that option. There is an issue further west of the area in providing access to the area. By buying the three homes, a road could be run through the area to provide access.

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Shady Oak Road: Gunyou noted if this project doesn't happen in the near term, the city might not have to bond beyond the first two projects. At this point, it is questionable whether the county will put the needed additional money into the project to make it feasible. Although Minnetonka could bond for the needed matching funds, the city of Hopkins might have trouble funding their share of the project. Gustafson said the county has applied for federal funding, but it is unclear if they will receive those funds.

Hopkins Crossroad: Callison asked if there has been follow up with the county addressing the neighbors' concern about the issue of cars being able to turn. Gustafson said staff is working on the issue.

Pond Maintenance: Wagner said statements were made about small lakes in relation to the shoreland buffer ordinance. He asked if staff has looked into matching grants or conducting more studies. Gunyou said Natural Resources Manager Jo Colleran has initiated an educational program. An initial workshop was well attended by residents of the smaller lakes, but not by the Libbs Lake and Grays Bay residents who raised the most concern over shoreland buffers.

Schneider said there are numerous proposals related to storm water regulations. He asked if staff was factoring in contingency plans for any potential new regulations. Gustafson said staff has worked on the issue with the watershed districts. Gunyou noted the May study session will include an update on the water resources management plan.

Sherwood Forest Area: Wagner asked if staff was confident the item would need to be done. Gustafson said staff has determined the project is necessary.

Water Tower Maintenance: Allendorf asked what is being done about the water tower at Forest Circle. Wagstrom indicated the tower will come down in 2009. Allendorf asked if the city will get any money for the tower. Wagstrom said the tower is of high quality so it will have high salvage value, which will return to the utility fund.

I and I Reduction Program: Wagner asked if there has been any improvement in the quality of the inspections. Wagstrom said yes; staff has redesigned the interview form to refocus the inspections on I & I, rather than only meter replacement. Wiersum asked if the city expected the surcharge to decrease over time as the program is implemented. Wagstrom said for the interim period the surcharge never goes down but always increases. If at the end of the program and the two and a half times peak is back within tolerance limits, the surcharge would be eliminated by the Met Council. Wiersum asked if surrounding communities were all facing surcharges. Wagstrom said a few communities are in compliance but many more are fighting an uphill battle.

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Schneider said a number of communities are looking at converting street lights to L.E.D. He asked if staff has looked into the technology. Wagstrom said L.E.D. technology is still a work in progress. A number of cities and organizations have looked at the technology but none have converted. Schneider said the technology presents huge potential long term savings. Wagstrom said another technology that is more advanced is induction lighting, and that is already being used in some communities. Cities are hopeful L.E.D. technology will get up to speed because of the cost savings.

**2. Adjournment**

The study session adjourned at 9:09 p.m.

Respectfully submitted,

David E. Maeda  
City Clerk