

**STAFF SUMMARY
CITY OF MINNETONKA
CITY COUNCIL STUDY SESSION
MONDAY, NOVEMBER 17, 2008
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Council Present: Dick Allendorf, Bob Ellingson, James Hiller, Tony Wagner, Brad Wiersum and Mayor Jan Callison.

Staff: John Gunyou, Geralyn Barone, Merrill King, Julie Wischnack, Dave Johnson, Darin Nelson, Brian Wagstrom, Joe Wallin, Mark Raquet, and Jeff Sebenaler

1. 2009 budget review

Gunyou provided highlights of the 2009 budget. He said spending growth is held to three percent. He noted the recommended tax levy is \$100,000 less than the preliminary levy adopted by the council in September and \$125,000 less than the amount originally allowed to levy. Gunyou said this was achieved by controlling personnel costs, freezing non-personnel costs, capping energy costs and placing \$525,000 of approved capital projects "on hold".

Gunyou said city taxes will increase \$37 for the average homeowner to fund basic city services and the voter-approved park referendum. Most of the levy will pay for police, fire, streets and parks. He reviewed a chart showing the operating fund budget growth and proceeded to review budget highlights for public safety and public works. Wagstrom explained the joint fuels purchasing agreement the city participates in with other agencies.

Gunyou reviewed budget highlights for parks and recreation, noting the new summer camp program for children called "Kids Corner". Johnson described how this program is unique compared to traditional private facilities and school district summer programs.

Gunyou provided an overview of budgets for development services and general services. He reviewed a chart indicating the value of city services which compares the cost of certain city services to other household expenses.

Gunyou suggested that certain capital projects in the adopted CIP be placed "on hold" and recommended a change in the priority order as listed in the staff report. He said bids for the community center and city hall public area renovations were not favorable and therefore this project would shift to the bottom of the priority list. He noted changes to the funding for nonprofit agencies.

Gunyou reviewed the property tax recommendation. He noted Minnetonka's proposed tax levy remains among the lowest of the increases being considered by neighboring and comparable cities.

Hiller inquired about how health plans for employees are funded and Gunyou responded by describing the costs to the city and employees.

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Callison asked if there are any provisions in the budget in the event the state does not reimburse the city for the Market Value Homestead Credit (MVHC). Gunyou said there are not, and added the fund balance could be used if needed. King noted this amount is approximately \$450,000. Gunyou pointed out the budget proposal holds the line and does not include program cuts or layoffs.

Callison said the Truth-in-Taxation statements sent to residents were based on the preliminary levy. With the new recommendation, Callison asked if people could expect their taxes to go down. Gunyou responded affirmatively.

Allendorf commented that gas prices were a big concern before and asked if any hedges are affecting the city adversely. Gunyou and Wagstrom described their assumptions in setting the fuel budget. Wiersum expressed concerns that the staff's assumptions are on the high end and felt budget savings would be possible if a lower fuel cost was used. He suggested the savings could be used for other purposes, such as funding the HRA levy or a loss from the MVHC.

Gunyou suggested doing a mid-year check on the fuel budget and reviewing the impact at that time. Wiersum stated his bias was to tax less, and a mid-year check does not allow for this. Gunyou warned against setting the fuel budget too low.

Wagner asked about possible leeway with the capital funds. Gunyou pointed out that \$500,000 of capital projects are already being placed "on hold" and believes 2010 and 2011 will present even more budget challenges. He described some of the larger projected capital expenses and the potential funding options.

Callison asked the council for their priorities on the recommended delayed capital projects. Wiersum inquired about the status of Williston Center renovations and Gunyou said the project has not yet been bid. He added this project is not supported by tax dollars. Callison suggested moving Oak Haven Park higher on the priority list and the POST plan update lower.

Wagner asked about CDBG funding and whether or not \$18,000 was a three-year holdover. Gunyou confirmed it was. Callison noted the EDA added a CDBG funding criterion that gives preference to groups helping people due to the economy. Wagner added that one-time funding is allocated based on need and what could have the most impact.

Callison opened discussion on the HRA levy. Allendorf said the argument that the development fund will run out is not compelling to him. He expressed support for the ideas involved in an HRA levy, but does not see the urgency of having such a levy in 2009. With regard to other expenditures, Allendorf suggested it

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might be time to ask if the criteria for using Community Investment Fund dollars are still valid.

Wagner noted the EDA goals are outlined in the comprehensive guide plan. He reviewed the history and projections for the number of affordable housing units in the city. He does not want to spend money out of a fund with no ongoing revenue source. He added that either spending must be reduced or a revenue source must be found and expressed support for the HRA levy.

Wagner said he does not want to cut road projects. He thanked staff for holding the line on the overall budget, but added he is not comfortable with a 6.5% levy increase.

Wiersum said he supports the HRA levy. He pointed out the comp plan has specific objectives but no funding route to achieve them. He suggested reducing the existing budget by the amount of the HRA levy. Wiersum recommended reducing the fuel budget, raising membership rates at Williston Center, eliminating the contingency funds, keeping the street budget flat, and placing \$200,000 into the HRA levy.

Hiller noted that residents like the city's services. He thinks the biggest concern is the state risk factor. He feels the EDA is handling one little project at a time, and the group hasn't been tasked to view the overall vision. Hiller said he does not feel the need for another tax. He feels the primary focus of the proposal is WHAHLT, and he does not believe housing goals will be met with the current plan. He does not think the question of how much funding is needed has been answered.

Ellingson expressed support for the operating budget general increase and said he does not support the HRA levy. He said the city is doing a good job and there is not a lot of room to cut. He noted he is still getting complaints about speeding, but now is also get complaints about ticketing.

Callison thanked staff for doing a good job with the budget. She pointed out the effort at reducing energy consumption. She asked if the \$100,000 cut from the preliminary levy could be put into the HRA levy. She noted the importance of the HRA levy to development, pointing out how Glen Lake has benefitted from sidewalks and street lights. Callison said she supports the budget and feels there is room to begin work on the HRA levy.

Hiller said the high risk on the MVHC may not be worth taking. Callison noted reserves are available if needed. Wiersum asked if enough money is available to cover all of the credit. Gunyou responded the council can review the capital budget if needed. Some projects could be delayed or reprioritized if necessary.

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The council proceeded to review the budget document. Wagner asked if fee changes are included in the budget, and Gunyou responded affirmatively. Allendorf asked why fiscal disparities are increasing, and Gunyou responded it is due to the spike in commercial growth. Allendorf asked what "Designated for Compensated Absences" means, and King said it accounts for employee sick and vacation leave. Callison noted reserves are being drawn down, and Gunyou confirmed this.

Wagner asked what is driving the increase in the police department's budget. King said police and fire pension increases are creating an impact. Wagner asked if home foreclosures are placing more pressure on police and community development services. Raquet said most of the affect is on community development staff, although the police department is noticing an increase in mortgage fraud cases.

Gunyou announced a correction in the fire department budget. One of the budget comments notes the fire pension is fully funded, but last week the relief association's actuary reported this is no longer the case due to market conditions.

Wagner asked if the legal department stopped supporting other Lake Minnetonka cities, and Gunyou said the contract was discontinued last year.

Wiersum asked if street paving costs are expected to go a lot lower. Wagstrom responded it is supply driven and bituminous is going up in price.

Allendorf asked why the cost for joint recreation supplies varies so much. Johnson stated expenses are based on the number of program registrants and the supplies needed. If participation is lower than expected, revenue will also be lower. Allendorf asked if the city has an agreement with the Minnetonka School District on the use of the arts center, and Johnson responded affirmatively. Wagner asked about funding of canoe trips on Minnehaha Creek, and Johnson said these are accounted for in the joint recreation budget.

Hiller asked how much is spent on conservation easement monitoring, and Wagstrom said \$8,000. He added this amount is the same for 2008 and 2009.

Hiller inquired about the increase in personnel services for senior services. Johnson noted the staff are now city employees and the increase was countered with a change in revenue.

Wagner questioned the projected increase in planning applications and building permits. Wischnack pointed out that it depends on the type of project, as some require multiple permits.

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Allendorf asked about the change in engineering department personnel costs, and King said the increase was relative to a one-time cost.

Gunyou said there may be dues for a Highway 169 commission and suggested not paying for them. Wagner inquired about the status of the proposed interchange at Highway 169 and Bren Road. Gunyou said he and Gustafson have met with MNDOT representatives to discuss creative financing options.

Wagner expressed an interest in having study sessions videotaped. Gunyou said there may be some capacity to do so.

Wagner noted the large deficiency in the utility fund. Gunyou said this is part of the longer-term plan and relates to water towers. Wiersum pointed out the FTE increase of 0.6, and Wagstrom said this is related to water meters and monitoring leaks. Wagner asked if the new system which can identify leaks can also be used to monitor commercial water sprinklers going off in the middle of the day. Wagstrom said those are on a different system. Wiersum suggested doing more to deal with residents sprinkling during the day.

Wiersum asked if there was any interest in raising Williston Center membership rates, and Callison said that creates a risk of losing customers.

Wagner asked if postponing the replacement of the Ice Arena B floor would result in reduced revenue, and Johnson said no.

Allendorf reiterated his request to review the criteria for expending dollars from the Community Investment Fund. Gunyou said this could be included in the CIP discussion.

Allendorf asked about the city's bonded indebtedness, and King indicated the city's indebtedness is very low.

Wagner complimented staff for the layout of the budget document. Wiersum said the budget is very well done and said he prefers to fund the HRA levy from the general fund. Allendorf expressed appreciation to staff for reducing the budget by \$100,000 and bringing it below the levy limit. Gunyou said department staff deserve the credit.

There was further discussion about the HRA levy. Wagner suggested the council review three options: the budget as presented without an HRA levy; the budget as presented with an HRA levy; and a slightly reduced budget with an HRA levy. Allendorf said if staff identifies \$200,000 in reductions from the budget, then he prefers reducing taxes by \$200,000. Gunyou said he does not recommend further cutting the budget, and Wagner responded that he should not do so then.

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2. Adjournment

The study session adjourned at 8:35 p.m.

Respectfully submitted,

Geralyn Barone
Assistant City Manager