

**AGENDA**  
**CITY OF MINNETONKA**  
**STUDY SESSION**  
**MONDAY, AUGUST 30, 2010**  
**6:30 P.M.**

**BOARDS AND COMMISSIONS ROOM**

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1. Boards and commissions interviews
2. 2011 preliminary budget review
3. Adjournment

Additional Information  
Study Session summary May 10, 2010  
Joint City Council and EDAC summary June 21, 2010

The purpose of a study session is to allow the city council to discuss matters informally and in greater detail than permitted at formal council meetings. While all meetings of the council are open to the public, study session discussions are generally limited to the council, staff and consultants.

**City Council Study Session Item #1  
Meeting of August 30, 2010**

**Boards and Commissions Interviews**

**Background**

The following openings exist on city boards and commissions:

- Community commission: 1 adult position, 1 student position
- Park board – 1 student position
- Senior advisory board – 2 adult positions

Two candidates will be interviewed during the meeting. The list of the candidates to be interviewed at this meeting is shown below. They will last approximately eight to ten minutes each. Each applicant will be asked to give a brief (about three minutes) presentation of his/her background. Then the applicant will be asked to respond to questions from the council. The applicants may also ask the council any questions they may have at that time.

**Interview Candidates**

<b>Name</b>	<b>Ward</b>
David Simon	3
Priscille Biehlmann - student	1

Submitted through:

Terry Schneider, Mayor  
John Gunyou, City Manager

Originated by:

Karen Telega, Administrative Assistant

**City Council Study Session Item #2**  
**Meeting of August 30, 2010**

**Brief Description:** 2011 preliminary budget review

**Recommended Action:** Provide direction on key issues and preliminary levy for:  
(A) City Operating and Capital Budget  
(B) Economic Development Programs

The purpose of this study session is to review key budget issues and provide direction on the 2011 preliminary tax levy, which will be acted upon by council on September 13, 2010 and must be certified to the county by September 15, 2010, as required by state law. This is the maximum amount the city can levy for 2011. When the final budget is adopted in December, the final levy may be less than the preliminary amount, but cannot be greater.

This initial budget study session focuses on the big picture and significant issues with potential fiscal impacts for 2011. At this study session, direction is requested for both the: (A) operating and capital budget for city services and facilities, and (B) city's economic development activities. Guided by these initial discussions, detailed budget requests will be reviewed in November, with the final budget adopted in December.

Minnetonka always encourages public budget input. In addition to the public budget hearing in early December, residents and businesses will again have an opportunity to provide feedback via the city's website and *Minnetonka Memo*. Comments will be shared with council as budget options are considered.

**Continued implementation of repositioning plan**

As the state and nation continue to feel the impact of a very slow recovery from the 2008-2009 recession, the city of Minnetonka is reaping the benefits of having taken clear and aggressive management actions to address the new fiscal environment early, and thereby position the city to deal with ongoing economic and fiscal uncertainties.

The 2011 budget will reflect the second full year of repositioning, and continues the previously planned property tax levy restraint. Unlike many cities that fluctuate between freezes and catch-up tax increases, the city of Minnetonka has adopted an ongoing program of modest, and sustainable, tax revenue growth that will continue to support the provision of quality services at a reasonable price.

In the spring of 2009, the city anticipated ongoing shortfalls in the city's projected future budgets due to dramatic and ongoing declines in development related revenue, a significant decrease in city investment earnings, the state's decision to require the city to fund its Market Value Homestead Credit (MVHC) program, and unprecedented

losses in employee pension funds, which would legally require considerable increases in city contributions. After discussions with council, the city administration implemented a number of actions mid-2009 and again with the 2010 budget to ensure financial stability over the long-term.

The strategies involved various new ways of doing business: cooperative service agreements with other agencies, productivity investments that help deliver core services more efficiently, and department reorganizations that repositioned the city to better serve its constituents, both immediately and well into the future.

Because the city is a service business, the changes needed to reduce the city's personnel-related costs. As a result, the reorganizations required a net reduction in our total work force by six percent – similar to contractions in the private sector nationwide. Seven employees were laid off, half of whom were managers and seven vacant positions were permanently eliminated.

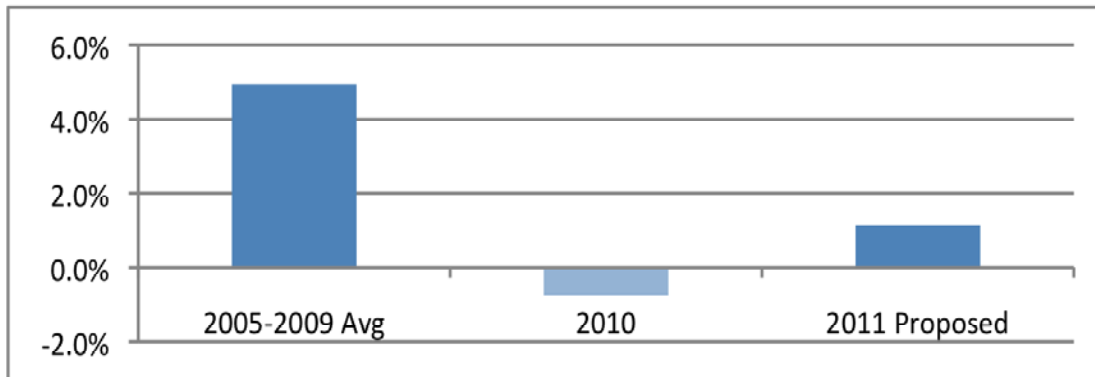
Additionally, the city and its unions responsibly renegotiated existing contracts to limit future base wage increases to one percent annually, with an allowance for market adjustments, when warranted, to remain competitive. This same structure was applied city-wide to all non-represented employees, as well as all management personnel.

The city of Minnetonka continues to take a responsible long-term perspective with financial planning and management. In 2010, staff work is ongoing to ensure that quality core services continue to be provided at the level that residents and businesses have come to expect, and at a reasonable price. Amongst the actions continuing, the city recently completed a comprehensive public safety plan, and a collaborative task force is making headway to develop a plan to address fiscal sustainability of our firefighters' pensions. Public works staff is continuing to complete capital projects to reduce energy use, many of which were accelerated with federal recovery funds.

## **2011 Operating Budget**

With investment interest revenue projected to remain depressed and development related fees forecasted for an all-time fifteen-year low, staff is proposing the General Fund operating budget tax levy be limited to an increase of only 1.1 percent. *Over two years, the operating budget for basic city services will remain flat.* This extraordinary achievement is made possible by the substantial permanent spending reductions enacted by the city. Rather than rely on temporary, one-time reductions in debt or capital spending like many cities, the city of Minnetonka reduced the growth in operating costs on an ongoing basis.

### General Fund Operating Budget – Annual Change from Prior Year



The proposed tax increase of 1.1 percent for general operations remains substantially below the average of recent years, and is less than the current inflation rate of 1.5 percent for the Consumer Price Index, 3.7 percent Municipal Cost Index, and 1.7 percent official State of Minnesota Implicit Price Deflator.

Personnel costs generally account for around seventy percent of the General Fund operating budget. The recommended increase will accommodate state-mandated employer pension contributions as part of the state's ongoing effort to fix Public Employee Retirement Association (PERA) funding liabilities. While three of four union contracts are yet to be renegotiated for the coming year, the largest of the city's employee unions will be covered in 2011 by the second year of a two-year contract which continues to maintain a one percent base wage increase and market adjustments by position. The recommended increase will also address costs associated with an increase in health insurance premiums of 10.2 percent, and also modest inflationary increases in non-personnel expenditures.

### Public safety improvements

The proposed levy and operating budget increases also position the city to consider the initial recommendations of a recently completed public safety plan, and to incorporate the phased-in enactment of the new Fire Apparatus Fund, which was previously adopted by council as part of the city's 2011-15 Capital Improvement Plan (CIP).

City council will consider the public safety plan at a study session later this fall. Because the plan encompasses numerous operating recommendations, staff proposes to delay the previously approved expansion of the duty crew from 2010 to 2011, and the detailed budget to be discussed by council in November will address the timing of these

costs. Initial capital recommendations of the plan would be considered by council as part of the 2012-16 CIP process.

In May 2010, council adopted a CIP plan to phase-in over three years the creation of a Fire Apparatus Fund to ensure the long-term capacity to replace essential, but costly, fire vehicles and equipment. These recurring capital needs will be funded by a modest (1.2 percent) increase in the levy in 2011. The new levy would generate about \$350,000 annually in the first two years, with another increase in 2013 to bring the fund levy to \$450,000 annually. More than \$2 million of replacement pumper and ladder trucks will be funded over the next five years.

<u>Fire Apparatus Fund</u>	<u>Amount</u>	<u>Years</u>
Pumper Trucks	\$660,000	2013, 2014
Ladder Trucks	<u>1,400,000</u>	2012, 2015
Total	\$2,060,000	

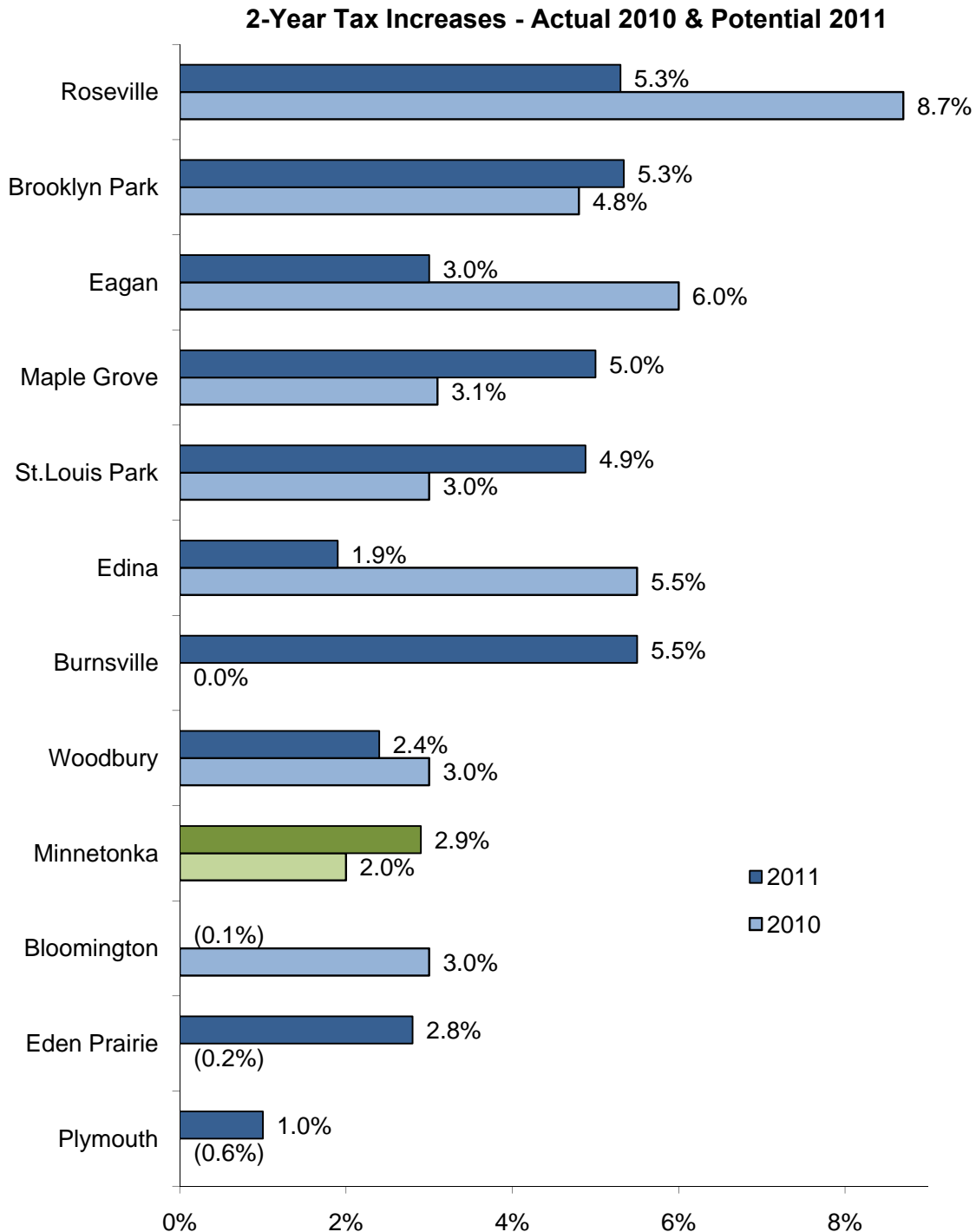
Some of the proposed citywide general fund operating increase is offset by a reduction in the city's mandated cost to amortize the unfunded liability in the firefighters' pension fund. While the 2010 obligation was \$348,000, an improvement in the fund's investment value and a new actuarial study requested by the city, has reduced the annual obligation for 2011 to \$198,000. As mentioned previously, staff is actively working with a collaborative task force of firefighters and consultants to address the pension's liability and, more importantly, to ensure that this critical program element in the recruitment and retention of firefighters remains sustainable for the long term.

### **Recommended 2011 Preliminary City Property Tax Levy**

The proposed operating budget increase of 1.1 percent, previously approved Fire Apparatus Fund (1.2%) and modest capital fund levies included in the 2011-15 CIP would result in a 2011 total city preliminary levy of 2.9 percent.

<u>Property Taxes (thousands)</u>	<u>2010</u>	<u>2011</u>	<u>Increase</u>
Operating Budget		\$21,013	1.1%
Public Safety Fire Apparatus Fund		350	1.2%
Regular Capital (roads, equip)		7,192	0.7%
Park Bond Referendum		1,186	
State MVHC		<u>525</u>	-0.1%
<b>Total City Levy</b>	<b>\$29,410</b>	<b>\$30,266</b>	<b>2.9%</b>

**Comparisons with other cities.** The proposed total city levy increase remains among the lower increases of comparable cities over the 2010 and 2011 period. Some cities are lower due to reduction in debt service levies.



***Discussion Question:***

***Does the council concur that \$30,265,533 (2.9 percent increase) should be certified as the city's preliminary levy for 2011?***

**Economic Development Programs**

Minnetonka's adopted comprehensive plan incorporates a strategic vision which includes a goal to "Guide development & redevelopment to ensure community vitality." The plan also includes growth strategy themes, one of which is to "Increase vitality in neighborhood, community and special purpose village areas."

Along with the city's reorganization of its policy oversight of economic development functions in the last year, council has begun to address the various resources that support these activities. Two years ago, council adopted a Housing and Redevelopment Authority (HRA) levy to initiate some of its priority work. However, because this funding is relatively limited and the city's other one-time resources are being drawn down, council expressed interest in exploring other resources that might be used to address this increasingly vital function.

Accordingly, two potential sources are recommended for consideration, and council direction is requested on the proposed one-year extension of a TIF district, and establishment of an Economic Investment Fund (EIF). No increase in the HRA levy is recommended for 2011.

**HRA Levy.** Staff recommends that the council, acting as the city's Economic Development Authority (EDA), maintain Minnetonka's Housing and Redevelopment Authority (HRA) levy at its current level of \$175,000 with no increase for 2011. Action must be taken at its September 13, 2010 meeting, which will occur either preceding or after the council meeting, to adopt a preliminary 2011 HRA levy. The Economic Development Advisory Commission (EDAC) has received preliminary information regarding the proposal and will make detailed recommendations for its use prior to final levy action to be taken in December.

**Boulevard Gardens TIF district one-year extension.** A recent change in state law has created a unique opportunity to extend an expiring TIF district for one year, and thereby leverage additional one-time funds for economic development activities.

Debt service for Tax Increment Financing (TIF) bonds associated with the Boulevard Gardens TIF district will be paid off in February 2011. The final payment will leave a remainder of already collected TIF increment with the city of around \$350,000. New state legislation was recently adopted which permits use of these funds for economic

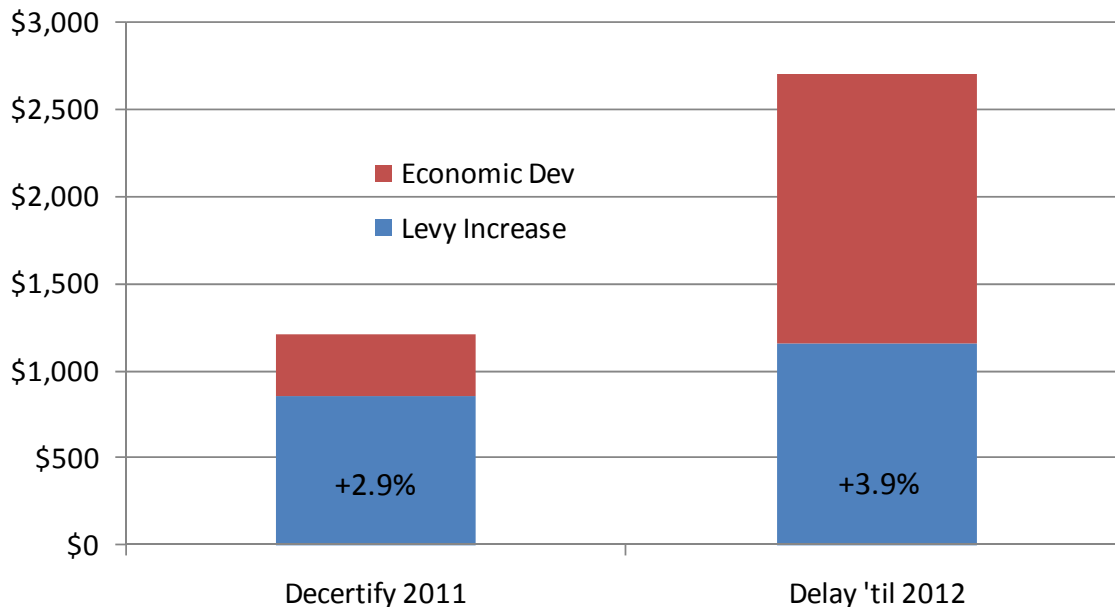
development related expenditures throughout the city. (See Attachment A for a more complete explanation of the new changes.) The law requires that new developments financially assisted with the funds must be under construction by June 30, 2011. Use of these funds would not affect the proposed 2011 total city levy.

In addition to these \$350,000 in one-time funds, if the district is decertified after payment of the bonds in February, the city will realize ongoing General Fund tax benefits of around \$300,000 beginning in 2011. This occurs because the new capacity to be added to the tax base would not be available within 2011 levy deadlines. These additional proceeds have already been incorporated into the 2011 budget, which helps maintain the total city levy increase to 2.9 percent as proposed.

However, because the district was not planned for decertification until 2012, an additional one year of tax increment (\$1.2 million) is potentially available for use in other city economic development activities – subject to the same restrictions that any new developments would need to be underway by June 30, 2011.

If the district is not decertified in February 2011, the \$1.2 million in increment proceeds would be leveraged for economic development projects. This windfall occurs because the property is not returned to the tax rolls of the city and other taxing jurisdictions for one additional year. The trade-off for obtaining these extra monies is that it would require an additional one percent city levy increase to offset the proceeds the city would have otherwise realized to balance the 2011 budget.

**Economic Development & Levy Increase Trade-off  
(thousands)**



Staff recommends consideration of this option to preserve the 4:1 leveraging that is potentially available. Should no projects be available to take advantage of these funds by the June 30, 2011 construction deadline, the TIF district would be decertified and returned to the tax rolls. The cost of preserving this option is an additional one percent increase in the 2011 levy, which would bring the total levy to 3.9 percent.

During its regular meeting on September 13, 2010, council will discuss adoption of a plan for use of the available increment balance of \$350,000 remaining in the city's account in February 2011. A TIF spending plan must be adopted to use these funds, as well as the additional \$1.2 million if that is the council's direction.

***Discussion Question:***

***Does council wish to keep available its option to delay decertification of the Boulevard Gardens TIF district by adopting an additional one percent increase (\$300,000) in the 2011 preliminary tax levy (3.9% total increase)?***

**Economic Investment Fund.** With adoption of the 2011-16 CIP in May, council established the new Economic Investment Fund (EIF). The fund will be initially capitalized with a one-time, \$5 million transfer from the Special Assessment Construction Fund (SACF). These monies were traditionally used to cash flow large road projects and thus, will continue to be used as a source for the 169/Bren Road interchange project within the new EIF. Fiscal actions taken by council within the last few years to support road infrastructure costs have provided sufficient resources to cash flow the city's other road projects within other funds.

When council authorized the new EIF, no funding other than for the 169/Bren project was to be appropriated until a clearly delineated policy was developed to structure use of the fund. Staff now seeks direction from council on the development of that structure, and recommends the following outline for discussion.

**Purpose of the EIF.** The city has a vested interest in leveraging private sector investments in economic development to support ongoing reinvestment in the community, which in turn increases the overall market value and tax base of the city. After a two-year decline in overall market value, the need to sustain or expand property value in the community is even more apparent. The growth in overall market value, particularly in commercial property, lessens the burden on residential property taxpayers of the community.

These public private partnerships are also crucial to job retention and creation, both within the community and throughout the metro area. Additionally, the city's financial involvement in development assists in influencing the desired project outcome, directs

the locations of where these projects occur and, in certain situations, helps fill the gap when market conditions are particularly challenging.

**Management of the EIF.** The establishment of an economic investment fund ensures the city's long term commitment to reinvestment in the community. EIF involvement is expected to primarily consist of revolving loans, which either become sustaining programs or create new dollars for future programs. Managed this way, the EIF will provide a sustainable resource for ongoing economic activity.

As proposed, priority for loans would be given to projects which:

- are within the "village areas" identified in the 2008 Comprehensive Plan;
- are mixed use or residential in nature, particularly projects nears light rail or transit investments;
- promote energy efficiency in buildings;
- contain amenities or improvements which benefit a larger area than the identified development;
- improve out-dated properties, provide cohesive development patterns, or improve land use transitions; and/or
- maximize and leverage the use of other financial resources.

**EIF fund balance minimum.** A portion of the fund will remain "unavailable" to ensure debt obligations of the fund are covered. The "available" portion of the fund will be any dollars in excess of that obligation, which could include interest earnings in excess of debt service interest and any other revenue flowing into the fund.

Financing of the 169/Bren Road interchange project includes a loan from the Public Finance Authority for which the EIF will be obligated. The loan is for an amount up to \$5 million, but the specific amount required will depend upon the actual costs of the project as determined at the time of bidding in early 2011. Because the cost may come in less than initial estimates, and because the interest rate on the loan is expected to provide arbitrage above the city's long-term realized investment interest rate, there will likely be some funds from these sources available for economic development loans.

Perhaps more importantly, adoption of the award-winning, Opus Overlay District provides that future development in the district reimburse the city for its costs to improve the 169/Bren Road interchange. Trip generation fees will be collected and deposited into the EIF over the next 20 years as these developments are approved. This longer-

term income stream will be available for the economic development loans of the fund as the funds are collected.

**Principle guidelines for use of the EIF.** Similar to any budgeting process, council would annually review the EIF to direct appropriate expenditures from the fund to meet the needs of the community. To help guide these annual discussions, staff recommends using general allocation goals, expressed as guideline percentages.

The guidelines would not be absolute allocations, but would help avoid a first-come, first served approach, in which available resources could be quickly depleted by lower priority projects and programs that might be more readily funded. The guidelines would be tracked over time, rather than set or reset annually, and would provide a basis for regular council policy discussions. Staff recommends that council consider the following initial guidelines:

*40% for energy efficiency partnerships* -- incentives for projects that increase energy efficiency for commercial buildings where there are other non-city resources invested as well. The maximum term would be five years, and the interest charged would be three percent, which conservatively approximates long-term city investment interest.

*50% for short-term land banking* – purchases of property which advance investments in redevelopment within village center areas. The commitment would be for five years. If after five years the redevelopment does not occur, the city would actively market the property to recoup at a minimum the purchase price and ideally the selling price would also recoup investment earnings.

*10% for project gap financing* – capital investment projects, which require gap financing of less than five years and be provided at rates two percent below private sector bank financing available at the time.

**Next steps to enact the EIF.** Several steps must be taken before the EIF can be fully implemented. The Charter Commission acted on August 24, 2010 to allow transfer of funds from the SACF to establish the EIF, and subsequently, the city council will consider their recommendations at a public hearing in early October. In the meantime, staff will work with the Economic Development Advisory Commission to develop a specific policy for use of the EIF to be adopted by the city council.

***Discussion Questions:***

***Does council agree with the initial structure for the EIF as outlined? What alternative or additional guidelines should be developed prior to consideration by the Economic Development Advisory Committee?***

**Summary of economic development resources.** The EIF adds to the diverse investment portfolio available to assist residential and commercial development.

<i><b>Minnetonka's Economic Investment Strategy</b></i>			
<i>Fund</i>	<i>Target</i>	<i>Available</i>	<i>Comments</i>
CDBG	Homeowners/incomes below 80% AMI	\$170,000	Dependent on Federal Funding
Livable Communities	Long-term affordable housing	\$2.2 M	One-Time Resources
Development Fund	Development preparation	\$1.6 M	One-Time Resources
HRA Levy	Master planning and homeowner rehab, above 80% AMI	\$175,000	Annual Levy
EIF	Commercial investment	\$5 M	Sustainable Revolving Loans

## **Summary**

Responsible long-term financial planning has continued to position the city of Minnetonka to accommodate the slow economic recovery and uncertain state actions. The major restructuring that took place in 2009 has permanently reduced the city's operating costs, and has allowed the operating budget for basic city services to remain flat for the past two years.

The operating budget tax levy will be limited to an increase of only 1.1 percent for 2011. The previously approved dedicated fire apparatus fund will add 1.2 percent to the levy, and modest capital fund levies included in the 2011-15 CIP will result in a 2011 total city preliminary levy of 2.9 percent. This increase remains among the lower of comparable cities, especially considering increases over the past two years. The actual tax increase for the average Minnetonka homeowner would be lower, since residential property values have decreased more than commercial properties.

As always, the city of Minnetonka will continue to provide the excellent services our residents and businesses have come to expect, and at a reasonable price, both in 2011 and well into the future.

Originated by:

John Gunyou, City Manager  
Geraldyn Barone, Assistant City Manager  
Merrill King, Finance Director  
Julie Wischnack, Community Development Director

## Tax Increment Balances Can Used for Construction Projects to Create Jobs

The State of Minnesota Jobs Bill authorized cash balances in existing tax increment districts to be used to spur new construction or substantial rehabilitation in your community. Significantly, local governments can spend existing tax increment regardless of when the district was certified without worrying about the many restrictions that have heretofore applied, such as the five-year rule and pooling limitations. **Any cash balances must be expended by December 31, 2011.**

### What kinds of projects can we assist with our increment balances?

The project must consist of the construction or substantial rehabilitation of buildings and ancillary facilities, if doing so will create or retain jobs in the state, including construction jobs. **Construction must begin before July 1, 2011.**

### How can we provide assistance to a project?

The first step is to adopt a written spending plan that specifically authorized the assistance. You will then need to enter into a development agreement that specifies how much increment will be provided, what it will pay for, and what form it will take. Under the law, the assistance may be provided as a:

- Direct loan
- Grant
- Interest rate subsidy on developer's private financing
- Equity or similar investment in corporation, partnership, or limited liability company
- Reimbursement to the City for public improvements such as utilities, streets, and storm water improvements.

### Does this mean we can pay actual building construction costs?

Yes. Assistance can be provided in any form to a private development consisting of construction or substantial rehabilitation of buildings.

### Can we use increment to pay for public construction projects?

No. Tax increment cannot be used to pay for public land, public buildings, or recreational facilities. Increment may be used to pay for public costs associated with a private construction project, such as utility connection fees, sidewalks, parking, or storm water ponds.

### Does it matter what type of district the increment is coming from?

No. Increment from a housing district can be used to help build an office building or increment from a redevelopment district can be used for a raw land site.

### How could I use tax increment to get spur housing construction in an existing subdivision?

There are several ways increment could spur development on improved lots. For example, you could:

- Pay for special assessments or improvement costs, thereby making the lots more affordable
- Provide downpayment assistance or gap financing to the homeowner
- Provide construction financing to a builder
- Write down the interest cost on the builders construction loan

Remember, the lots you assist must have homes under construction by July 1, 2011.

### How could I use tax increment to improve existing homes and businesses?

Increment could be used to make low-interest or forgivable loans to home-owners, rental property owners, or a businesses that will substantially renovate their property. If the loans are repaid, the repaid amount is still considered tax increment and will need to be accounted for in the district.

### Can I pledge tax increment I expect to receive in the future?

No. Existing cash balances and increment collected through December 31, 2011 must be used – no new authority for bonds or interfund loans are allowed. There are techniques for freeing up tax increment cash flow to use as much tax increment funds as possible before the end of 2011.

### What is the approval process?

The authority must adopt a written spending plan that specifically authorizes the assistance. This plan must be adopted following a public hearing. A notice of the public hearing must be published in a newspaper of general circulation at least once and not less than 10 days and not more than 30 days prior to the date of hearing.

### Where can I get more information?

Contact your Ehlers Financial Advisor at 651-697-8500 (A list of Minnesota Financial Advisors and their direct dial numbers can be found under the Contact Us tab at the top of our website at [www.ehlers-inc.com](http://www.ehlers-inc.com))

**STAFF SUMMARY  
CITY OF MINNETONKA  
CITY COUNCIL STUDY SESSION  
MONDAY, MAY 10, 2010  
PAGE 1**

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**Council Present:** Bob Ellingson, Amber Greves, James Hiller, Tony Wagner, Brad Wiersum, and Mayor Terry Schneider. Dick Allendorf was excused.

**Staff:** John Gunyou, GERALYN Barone, Merrill King, Darin Nelson, Julie Wischnack, Lee Gustafson, Liz Stout, Mark Raquet, Brian Wagstrom, Perry Vetter, Joe Wallin, Kevin Fox, David Maeda

Schneider said he had spent the last month recruiting and contacting people who had previously applied or had been interviewed for a position on one of the boards and commissions. He said time was running out to fill some of the open positions. The first EDAC meeting was scheduled for June 21. He asked if the other council members preferred to do a special study session to conduct interviews or if they preferred for him to put together a list of the applicants he felt were qualified for the open positions. If a council member wanted more background on an applicant then that person could be interviewed. Schneider said he was trying to fit specific skill sets with consideration to balance on the particular board or commission.

Wagner said sitting through boards and commissions interviews was his least favorite duty of being a council member. He said it was always a challenge because there were so many mixed pieces and he thought it was beneficial for Schneider to put forward a list of qualified candidates. He suggested that it would help in the application process to be more purposeful by defining expectations rather than screening applicants after they had already applied. He said a lot of times the council had to educate applicants during the interview process.

Wiersum said he would like the process to be as efficient as possible and if Schneider had a sense of a slate of candidates that would fit well in certain positions, it would be beneficial. He agreed with Wagner in making the application process more purposeful by clarifying the specific experience the council was looking for before applicants are brought in for an interview. This would also allow council members to encourage somebody who might be a good fit, to apply. He said the process had to continue to be open but if there was a way to make the process more efficient it would be helpful.

Hiller said he was comfortable with Schneider's suggestion of developing a list because that process was already being used for the EDAC. He said he was open to either process however.

Greves asked if in the past everyone who applied was granted an interview. Schneider said that since the interview process was started all applicants had been given an interview. He said he would not eliminate the interview process but the challenge for the EDAC was to appoint the entire commission all at once and that there was a mix of pre-defined experiences being sought. Greves said

**STAFF SUMMARY  
CITY OF MINNETONKA  
CITY COUNCIL STUDY SESSION  
MONDAY, MAY 10, 2010  
PAGE 2**

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her concern was because the city had interviewed all applicants then there might be the expectation for an interview but she supported an expedited process.

Ellingson said Schneider had a good sense of who should be on the EDAC and what types of qualifications were needed.

**1. 2011-2015 Capital Improvements Program**

Gunyou explained the recommended fire apparatus fund. An additional \$425,000 per year would equate to a one-time 1.5 percent increase in the total property tax levy in 2011. The fund would be used for bigger ticket items like replacement pumper trucks, ladder trucks and SCBA equipment.

Wagner asked if the major ticket purchases have occurred fairly consistently in the past or if there is a bubble coming up in items whose life spans have been extended for a long time. Gunyou said that for the first five years there would be some catching up that needed to be done because some purchases have been delayed. Once the process is in place, items could be scheduled out. Fire Chief Joe Wallin indicated even after the catch up period equipment would still need to be purchased as time goes on. Gunyou said one example was the SCBA gear that is on a seven year replacement cycle. One big unknown was what the public safety study would conclude. Wallin said the age of the equipment has been stretched out as far as possible and he did not see the fund having a huge surplus in the future.

Wiersum said in reading the staff report it sounded that the approach of buying used and refurbishing equipment would not be as effective in the future because increasing costs of replacement parts. Wallin said that was a fair statement. The price of used equipment has gone up and the cost of maintenance has also increased. He said the strategy gave the city a decade worth of equipment and saved a significant amount of money. Wiersum agreed the proposed fund had merit and was needed. He said his one concern was that sometimes when special funds are created, the demands for the amount of money accelerate at a greater rate than the overall budget. If the council chose to establish the fund he would like the fund amount set at an amount that the city could live with for a number of years. Gunyou said staff was comfortable with the five year planning timeframe.

Hiller said there was no question the equipment needed to be replaced but he had concerns about why another fund was necessary.

Schneider asked if the city switched away from using refurbished equipment if there was a plan in place to address the impact on the 30 year life cycle of the equipment. Wallin said the ladder trucks would last longer. Gunyou said even though the recommendation was for a separate fund, over the recent past there

**STAFF SUMMARY  
CITY OF MINNETONKA  
CITY COUNCIL STUDY SESSION  
MONDAY, MAY 10, 2010  
PAGE 3**

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has been a shift from increasing funds by a certain amount each year to an approach of adjusting levies in each of the funds accordingly for the five year period to provide flexibility. Finance Director Merrill King noted the flexibility was the reason why the overall CIP levy has not increased the past few years.

Wiersum said the fire apparatus fund was defensible because it was for public safety and the city has been prudent in the way it has spent money on capital funds for the fire department. Having a separate fund would make it more difficult for the council to take money from the fund for something else. The equipment would need to be purchased anyway and having a separate fund would make it more visible.

Schneider said he fully supported the idea of a dedicated fund that would allow the city to plan for bigger purchases. His concern was about the timing and the process for getting the fund to where it needs to be in today's economic climate. He suggested establishing the \$425,000 as a goal, having a lower tax levy, and then trying to figure out how to get to that amount by transferring money left over from other reserves and building the fund over a couple of years.

Ellingson asked what the levy limit was for 2011. King said the specific number was not yet known. The legislature recently increased the limit to 1.17 percent. She noted that things that were unallotted could be added to the limit.

Wiersum agreed with Schneider that if there were other funds that could be tapped to lower the levy increase, he would be fully supportive of that approach.

Greves asked if Gunyou had any possible reserves in mind to transfer into the fire apparatus fund. Gunyou said staff tries to estimate the carry forward amount for every fund to schedule approved items and that was already included in the information. If the council chose to take Schneider's suggested approach, staff would need to go back and reschedule some items.

Wagner suggested Gunyou and King bring back options for the council to look at. He said he would be opposed to using the CIF for a core service of the city.

Gunyou outlined the trail improvement plan. He said staff had two questions for the council: 1) If trail improvement was an appropriate application of the CIF; 2) If the approach staff had taken was the correct approach.

Parks, Buildings and Grounds Manager Perry Vetter gave background on the plan.

Greves noted the southwest quadrant of the city had little programmed into the plan. She asked if there was something in the Highway 7/County Road 101 corridor that potentially could be added. Gunyou said he asked Vetter to develop

**STAFF SUMMARY  
CITY OF MINNETONKA  
CITY COUNCIL STUDY SESSION  
MONDAY, MAY 10, 2010  
PAGE 4**

---

a 10 year plan. The information provided to the council was for the first five years. Vetter said the plan was developed to include what trails could be built and finished right away. Other trails that might not have as high traffic but were missing links for other trails were then considered.

Schneider asked how the trail on Shady Oak Road between Excelsior Boulevard and Highway 7 was being handled given the timing of the road project was up in the air. Vetter said the trail was scheduled for 2014. Gunyou said consideration was given to when the road projects would occur and staff wanted to make sure the funds were available given that some of the trails would be expensive.

Wagner said he was a big advocate of the program and that there was no better use of the CIF dollars than to accelerate the 30 year trail plan. He frequently hears from residents concerned about riding on the side of high traffic streets. Because there was no scheduled reconstruction of some high traffic areas, his concern was that it would take a long time to get some of the trails done. He said for him CIF dollars should be about advancing projects that aren't scheduled to be done as part of road project. He gets a number of calls from residents near schools who want to send their kids to school on their bikes. He suggested challenging the residents to work together to donate easements, or coming up with a matching grant fund, to stretch the city's resources further. If a neighborhood participated, their project could be moved up the list. Gunyou said staff discussed Wagner's idea and thought the idea was a good one.

Wiersum said furthering the trail system had broad community benefit but the city had treated the trail system as nice to have rather than a core part of the infrastructure. He agreed using the CIF to accelerate the trail system process was what the fund was meant for. He would strongly support making the connections to allow people to use the trails to get to the places they want to go.

Hiller said his concern was about the use of the CIF. The fund was set up to do special projects like the Williston Center. He was concerned that trail improvements would bleed the fund and the fund would never grow to the amount necessary to do special projects. He said specific goals and principles needed to be identified to use the CIF for trail improvements. Gunyou said one advantage of using the CIF for trails was that it would provide flexibility for the future. It would be easier to delay a couple of years of trails to fund a big project.

Schneider said he agreed with Hiller. He said that trail improvements met all the criteria for the CIF. His concern was because there was the potential that the trails would absorb all the funding, the funds would not exist to do a major project in the future. He suggested the council adopt a resolution that would identify trail projects that would qualify for CIF funding. Rather than dedicating the funds the council would inform the park board the money that was available. The park board would then have to apply for the money on a yearly basis to fund the

**STAFF SUMMARY  
CITY OF MINNETONKA  
CITY COUNCIL STUDY SESSION  
MONDAY, MAY 10, 2010  
PAGE 5**

---

priorities. The council then would make a decision on an annual basis looking at the status of other projects. Gunyou noted the rules of the CIF were that the project had to be in the CIP for two years. He suggested one way to do what Schneider was proposing was to assign a lower number to some of the trails and creating a list of trails in waiting. This would keep those trails on the list but not commit the funding. Wagner said it was important for the council to set the expectation for staff and residents on what the recommended appropriation would be so proper planning could be done.

Ellingson asked what types of trails were being envisioned. Vetter said he envisioned the trails to be similar to the trail along Shady Oak Road. Eight foot wide trails would be easier to maintain and allow traffic in both directions.

Gunyou and King gave a summary of the proposed economic investment fund.

Wagner noted that King indicated that \$2 million was needed in the assessment account. He asked how she saw the fund growing going forward. Would the city be in a similar situation five to ten years out? King said she thought the fund would continue to grow but not at the same rate.

Hiller said one of his concerns in lowering the assessment account balance was that the city might lose some margin on future bonding. King said staff now has a better handle on each of the funds used for road projects than ever before. None of the funds has a negative balance. City Engineer Lee Gustafson noted that with the three county road projects in the CIP, the two County Road 101 projects also qualify for turnback funds. The city will not have to participate to the same extent as it did with the last Shady Oak Road project. The city went through a very laborious process to come up with a very good cost estimate for the other Shady Oak Road project. He said there has been great specificity in identifying the funding sources to make certain that the city's funds remain in good shape.

Gunyou gave an overview of the water quality improvement program. Schneider he was serving on the Headwaters Council. The group is developing the broad policy on how the Legacy funds would be used. He said it was likely much of the funding would be allocated to the metro area for water quality improvements. There likely will be performance based criteria and matching funds. Cities that are prepared will potentially be able to capture the funds first. Greves asked if a key to that would be partnering with the watershed districts. Schneider said the more a city can have things in place early on, the better chance the city could capture available funds.

Hiller said he wanted to manage expectations and make sure that people understood the city wasn't promising to take care of each lake annually.

**STAFF SUMMARY  
CITY OF MINNETONKA  
CITY COUNCIL STUDY SESSION  
MONDAY, MAY 10, 2010  
PAGE 6**

---

Greves asked the status of the state addressing the impaired lakes. Gustafson said the state was moving forward. He said two of the three lakes that are now listed as impaired were not listed that way several years ago. Because of the citizen monitoring program the three lakes are listed as impaired. Once a plan is approved by the PCA and EPA, an implementation program must be developed. Aesthetics often do not pertain to the water quality. Gunyou said one thing the city would want to do was to address not just the lakes that are impaired but looking at steps that could be done to protect the lakes that are not impaired.

Wagner said there are times that an action the city has done drives the water quality but a lot of times it was also about management around the lakes. He asked if the city could do something to get neighbors more organized. Gustafson said the city was well ahead of many other cities. The computer modeling will help analyze where the city can get the most from the available resources.

Ellingson asked if the strategy was to put chemicals into the impaired lakes to kill the weeds or if there was a strategy that didn't rely on chemicals. Gustafson said there were many strategies that would be used.

Schneider called a recess at 8:18 p.m. He called the meeting back to order at 8:36 p.m. He said he would like to hear a general discussion about what overall magnitude and direction of the proposed CIP.

Greves said that she wanted to make sure that when staff came back with options related to the fire apparatus fund, she didn't want to see cuts or further delays to things that were real needs. Gunyou said if the adjustment was in the \$100,000 range, then staff could likely come back with options that would not include cuts to things that were real needs. Wiersum said there seemed to be a general agreement that what the council was asking for were options that looked at other sources of funds.

Hiller asked if there was an estimate what the levy increase would be over the next few years. Gunyou said looking at the capital levy for 2010 and 2011 the increase would be a little larger due to the fire apparatus fund. Looking out further, the increase would likely be in the two and a half to three percent range for the capital levy.

Schneider said for the overall budget the council needed to be able to tell residents what they would lose if there was no tax increase. Gunyou said staff would discuss how that information could be provided. Wiersum agreed it was a better message that the city looked at a zero based budget but determined that cutting key programs and services was not in the best interest of the city rather than how a proposed property tax increase compares with peer cities. Hiller said in talking with residents, people were concerned about what the state would do.

**STAFF SUMMARY  
CITY OF MINNETONKA  
CITY COUNCIL STUDY SESSION  
MONDAY, MAY 10, 2010  
PAGE 7**

---

He said the one place that could be trimmed was road improvements but people understand and accept the need for those improvements.

Wagner noted that light rail was scheduled for around 2015. He asked at what point there would be better estimates from a streets standpoint of what the city's contribution would be. Community Development Director Julie Wischnack said by next year there would be more information available.

**2. Disposition of funds from the sale of 5425 Spring Lane**

Gunyou reviewed the proposal.

Wagner said the hard costs should be valued more than appraised value. The park fund has already received the rental income associated with the property. He said he would have a difficult time having the park fund benefit from appreciation that occurred over the years while the development fund take a hit for the hard costs that were paid out.

Hiller noted the park board had agreed to sell the property while the EDA knew it was taking the risk.

Ellingson said he agreed with the staff recommendation.

Wiersum said he thought the staff recommendation made sense.

Schneider said if the house had been torn down and the land made into a park, the land would have been worth \$50,000 rather than \$200,000. The land was purchased to be incorporated with Purgatory Park and this probably wasn't a good decision because the land didn't fit into the park like it should have. He said the \$145,000 was a viable reimbursement cost. He agreed with Wagner that it made sense to give more to the development fund.

Greves said given the discussion about trails, if there was potential for the recommended approach then additional funding for the park development fund might be needed.

**3. Adjournment**

The study session adjourned at 8:57 p.m.

**STAFF SUMMARY  
CITY OF MINNETONKA  
CITY COUNCIL STUDY SESSION  
MONDAY, MAY 10, 2010  
PAGE 8**

---

Respectfully submitted,

David E. Maeda  
City Clerk

**STAFF SUMMARY  
CITY OF MINNETONKA  
JOINT MEETING WITH THE CITY COUNCIL AND THE EDAC  
MONDAY, JUNE 21, 2010  
PAGE 1**

---

**Council Present:** Dick Allendorf, Bob Ellingson, Amber Greves, James Hiller, Tony Wagner, Brad Wiersum, and Mayor Terry Schneider

**EDAC Present:** Kate Aanenson, Benita Bjorgo, Ken Isaacson, Bruce Smith, Chandra Coughlin, Michael Happe and Peter St. Peter (Chair)

**Staff:** John Gunyou, GERALYN Barone, Desyl Peterson, Julie Wischnack, Elise Durbin

**1. Call to Order**

Schneider called the meeting to order at 6:03 p.m.

**2. Introduction of new EDAC members**

**3. Mayor's welcome**

Schneider said the city was poised for a time where a lot of great things can be done. It was important to be more proactive in business development, affordable housing, life cycle housing and making sure the city has the right type of housing. He said in the past the EDA tended to be more reactive as most of the activity involved developers coming forward wanting tax increment financing or some other subsidies for approval. The city was in a climate that it could sit back and wait for that to happen. Things have changed not only economically but also the council has decided the city needs to be more proactive rather than waiting until a developer brings a proposal that needs to be responded to. The updated comprehensive plan has accelerated the need for this change.

**4. Overall structure of the commission**

Schneider said the EDAC was set up similar to the planning commission with seven members with two year terms. The commissioners' terms will be staggered.

**5. Discussion of EDAC work plan**

Community Development Director Julie Wischnack gave the staff presentation.

Aanenson asked if the meetings would be held in the council chambers. Wischnack indicated that was correct and noted the meetings would be webstreamed. Schneider reminded the commission members that they had to abide by the open meeting laws.

**STAFF SUMMARY  
CITY OF MINNETONKA  
JOINT MEETING WITH THE CITY COUNCIL AND THE EDAC  
MONDAY, JUNE 21, 2010  
PAGE 2**

---

Coughlin asked if there was benchmark data available. She said studies and analytical data of comparable cities would be helpful. Wischnack said staff had to remind themselves that some of the commission members were new to the process and needed some of the information that the city went through during the comprehensive plan process. She said staff would keep the commission members in the loop and provide information from studies.

Greves noted a recent Star Tribune news article indicating the Metropolitan Council's affordable housing targets had been lowered. She asked what the number of affordable housing units in the city was. Community Development Supervisor Elise Durbin said there were 383 units at the beginning of the comprehensive plan process. The number has decreased since then. Greves said it would be interesting to have the EDAC review the affordable housing targets in the 2011-2020 Metropolitan Council housing goals. Wischnack said it would take a lot of homework for the EDAC members to understand the background of the goals. Schneider noted it was important to look not only at the numbers but what types of affordable housing was needed in the city. The council has discussed the gap in the modest priced housing in the city that would attract young families into the community. Wiersum said the EDA spent a lot of time looking at affordable housing. The city has done a good job with subsidized affordable housing but what is lacking is unsubsidized affordable housing that would be affordable for young families. He agreed with Greves that even though the targets have dropped, that doesn't mean the need has changed.

**6. City Council expectations**

Schneider said there would be a steep learning curve for the EDAC members. He said because there may be things that happen that change the whole dynamics of what the priorities are, commission members had to be flexible and adaptive. Setting the groundwork at the beginning was important because it would help later on in the process.

Greves was excused at 6:46 p.m.

Looking at the priorities for the commission, Wiersum said there were the traditional things the EDA had been involved in including affordable housing issues. There are also pressing issues coming up including light rail. He agreed with Schneider that there was an opportunity for being proactive and deciding what kind of community people wanted to have and how to make the community better.

Wagner said the work plan was a daunting list and it was important to prioritize what the 12 month, 24 month and long term objectives were. He agreed there was a unique opportunity to be more proactive in parts of the city. One such area is the area around the Shady Oak station where there are 17 pieces of

**STAFF SUMMARY  
CITY OF MINNETONKA  
JOINT MEETING WITH THE CITY COUNCIL AND THE EDAC  
MONDAY, JUNE 21, 2010  
PAGE 3**

---

independently owned land. How can the city leverage what was done in the Minnetonka Mills planning process for the Highway 7 and County Road 101 area? Another area with an opportunity to be proactive was the Opus area. A related issue was how transit impacts the ability to develop some of the village centers. He said he would put priority on what incremental benefits could be gained and focus on long term planning.

Allendorf said traditional priorities for the EDA have been housing and transit and transportation issues. He said a priority for the EDAC would be redevelopment, specifically the County Road 101 and Highway 7 area and Shady Oak Road and Excelsior Boulevard area. He would push for a similar concept to what Minneapolis has used in having interested developers work with the EDAC. The developers would apply their expertise on what was financially feasible. He said the development community could help the city's efforts in coming up with a realistic plan, budget and time period for the two development areas. This process wasn't needed before because the developers came to the city with proposals and plans.

Ellingson said the obvious places that need redevelopment had been identified. He said he liked the planning process for Minnetonka Mills. There was developer interest but the city got ahead of things by meeting with the neighborhood to see what they wanted to happen. He said it was always important to keep in mind the underlying business going into the buildings that will be built. One example was in the I394 and Hopkins Crossroad area where the council debated whether there should be a three story or four story office building. Now there won't be any office building because of the economy.

Hiller said he was looking forward to what came out of the process. He noted that the EDAC members would have plenty of support and expertise provided by city staff. Consultants could also be brought in to help out as needed.

St. Peter said there was a daunting challenge with the timeline of the budget cycle. The preliminary levy would be adopted in August and formally adopted in December. Brainstorming and discussion would be needed so that there would be directed recommendations for the council. He said last year the EDA ran into resistance from the council due because of the lack of specificity in its recommendations.

Schneider suggested the EDAC shouldn't spend a lot time figuring what should be done with the HRA levy. There would be many challenges for the city trying to keep taxes low given the current economic climate. He said the appetite for doing major increases likely was not great. He indicated there were procedures that needed to be followed in order to take available funds combined with the new transportation fees that would be generated from the Bren Road interchange. Potentially there would be an ongoing revenue stream of several million dollars to

**STAFF SUMMARY  
CITY OF MINNETONKA  
JOINT MEETING WITH THE CITY COUNCIL AND THE EDAC  
MONDAY, JUNE 21, 2010  
PAGE 4**

---

be used for economic development in the city. A charter amendment change is required to transfer money from the special assessment fund into the economic development fund. In order to do that, criteria needs to be developed. He said the EDAC's focus should be learning about the potential available funding and developing the criteria and priorities through interaction with the council.

**7. Joint Meeting adjournment**

The joint meeting adjourned at 7:07 p.m.

Respectfully submitted,

David E. Maeda  
City Clerk