

AGENDA
CITY OF MINNETONKA
STUDY SESSION
MONDAY, OCTOBER 11, 2010
6:30 P.M.

BOARDS AND COMMISSIONS ROOM

1. Public safety study update
2. Water and sewer utility rate study
3. Adjournment

Additional Information
Study Session summary August 30, 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 October 11, 2010

Brief Description: Public Safety Study Update

Background

Earlier this year, the city commissioned Springsted, Inc. to undertake a public safety study to strategically view how anticipated changes outlined in the city's comprehensive guide plan may affect our provision of public safety services. Further, it was to suggest how we might position ourselves to prepare for these changes and plan for operational and facility improvements.

Dave Unmacht, Springsted's Senior Vice President of HR & Organizational Management, led the consultant team of public safety and facilities experts. Mr. Unmacht will present key findings at the council's October 11 study session (see attached executive summary). The final detailed report is near completion and will serve as a guide to staff for making future organizational and budgetary recommendations to the council.

The consultants offered a fresh, third party review of public safety operations and were challenged to be creative in their approach to Minnetonka. Overall, the city management team is pleased with the ideas generated for consideration; some have already been implemented, others will be phased in over time, some are being developed further, and less feasible ideas will not likely be undertaken.

For example:

- Fire department facility improvements have been completed at Stations 1 and 4, and planning has been initiated for the long-term status of Station 3 in connection with Opus area redevelopment.
- A new fire apparatus fund is included in the proposed 2011 budget to address long-term public safety equipment needs.
- Recent investments in 9-1-1 public safety dispatch systems continue the commitment to providing high quality local service, but future discussions with other agencies will occur as opportunities present themselves.
- The fire department duty crew model has been adopted, and the first phase fully implemented; study continues on how quickly the crews will be expanded.
- Public works and fire department staffs will develop procedures for an ongoing fire hydrant inspection and maintenance program.
- Medical response protocols are under review by police and fire department staffs, with a focus on customer service needs.
- Community development and fire department personnel will explore the feasibility of a coordinated commercial fire inspections program, possibly on a pilot basis.
- Public safety staff will be involved at key points during the LRT planning process.

As evident in the list of examples, one of the primary benefits of the public safety study is the increased collaboration among city departments. Although our employees have a long history of working well together, improved technology and overlapping responsibilities make cooperation more imperative than ever to best serve our residents and businesses. With dwindling resources in a time of rising demand, inter-agency and public-private partnerships are also expected to increase.

As staff continues to review the study suggestions and develop specific strategies, those with organizational and budgetary implications will be brought to council as appropriate. Fiscal realities may require some of the strategies to be more long-term.

Discussion Points

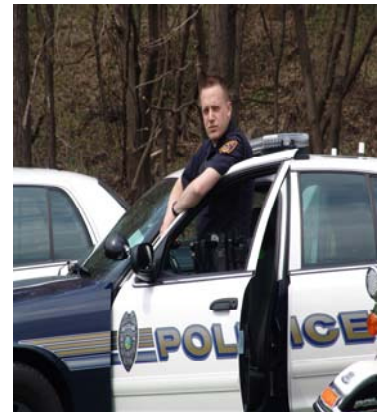
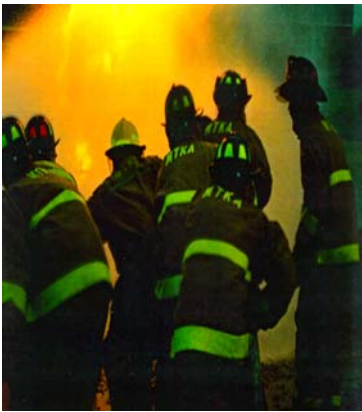
- ***Does council have any questions or wish to provide any comment on the public safety study?***

Summary

The public safety study prepared by Springsted, Inc. poses a variety of service delivery enhancements for a changing environment. By taking a proactive stance, we position ourselves to make fiscally responsible yet thoughtful decisions to meet the needs of our residents and businesses, both tomorrow and well into the future.

Submitted through:
John Gunyou, City Manager

Originated by:
Geraldyn Barone, Assistant City Manager



City of Minnetonka, Minnesota

Public Safety Management and Operations Study Executive Summary

September 2010

1. Executive Summary

The City of Minnetonka is a successfully managed community of 51,500 residents located in Hennepin County. The City has a long and rich tradition of effectively planning, financing and managing its diversified base of local government services. Public safety services have always been a high priority for city leaders and the future of those services is undergoing change as the community grows, matures and evolves over time. The City's current public safety services are well established and highly acclaimed within the community and region. The City's goal is to ensure that the public safety services remain well organized, effectively managed and operationally successful for many years to come.

With the recent completion of the Comprehensive Plan, and with a keen eye toward the future, in November of 2009, the City issued a Request for Proposal for a Public Safety Plan. The purpose of the Plan is to "guide the future delivery of public safety services to the Minnetonka community in a changing environment". The City seeks a strategic assessment of how the anticipated changes will affect the provision of public safety services across all disciplines including police, fire and emergency services.

A team of consultants (TriData, KKE Architects, RW Boe Consulting, Kent Therkelsen & Associates and Springsted, Incorporated) was retained to provide an independent third-party analysis of the public safety services within the City. With the support of the City staff, the consulting team conducted a comprehensive review of the current and future services and has prepared an analysis with an accompanying set of recommendations. The study process took place in the first half of 2010 and consisted of several major components: analysis of existing information and documents; extensive field work and conversations with top city leaders and department officials; a comparison of performance and operations to state and national standards; preparation of a set of preliminary findings, followed by a series of recommendations for the future.

2. Comprehensive Plan

The “Overall Policies” of the Comprehensive Plan provided an excellent starting point for the study. For both the police and fire services, the community values and six distinct policies were useful and important for providing guidance and direction early on in the analysis. A comprehensive plan by its vary nature consists of both short and long term components. As such, these values and policies were impacted differently within the scope, interviews and analysis. In planning and predicting future services, the specific challenge for City leaders (for any community, not just Minnetonka) is to know when certain policy, operational and financial decisions must be re-evaluated. To that end, the City identified specific timeframes for the study recommendations. As the study developed and findings and conclusions were being identified, these timeframes were supported by the introduction of “trigger” points. These trigger points are designed to advise the City when a discussion or action is pertinent and timely.

Study factors and key findings of the Comprehensive Plan were the central driving forces of the project. From the Strategic Services Time Capsule, these items included more intense land uses, higher traffic volumes, an aging community and the ever-expanding use and application of technology. Other factors of importance to the City are: the location and type of retail commercial uses, regional and local traffic patterns and the possibility of expanded transit facilities and services, difficulty in recruiting and retaining paid-on-call fire fighters and the challenges posed by the new types of equipment. It was clear from the beginning conversations with city staff that the study was not an operational or efficiency analysis, but rather a strategic look into the future. As such, significant information on the City’s current baseline of services was prepared and developed, but for the purposes of this report, is referenced only and available within the comprehensive plan, the RFP and in the study team’s preliminary findings.

3. Key Findings

The following list represents the key findings within the study. They are not listed in any specific order or priority.

- The City of Minnetonka's current baseline of services is strong and successful. There is no substantive policy or planning reason to significantly alter or change the current mix of services. The consulting team identified several ideas and options which if acted upon will strengthen and enhance the current baseline of services.
- Public safety services are strongly supported by the residents of the City as evidenced in the February 2010 Citizens Survey results. 94% of the residents indicated that both police and fire services were either excellent or good. This positive outcome continues a pattern of comparable results from previous city surveys. The City's long term goal is to continue to receive strong community support in their delivery of public safety services.
- The five Fire and Police Services (Community Values) and six (Policies) within the Comprehensive Plan are supported by the findings, analysis and recommendations. If there is one distinct value and policy that is not included within the current comprehensive plan but was given great emphasis within the study was the City's desire to seek a more integrated and seamless relationship between the two departments over time.
- The City's goal to develop seamless, coordinated and integrated public safety services between all affected departments and personnel is admirable and laudable. However, it will take deliberate action from all top officials to ensure that this organizational change will be successful over time; leadership from city administration is vitally important for short and long-term success.
- Future public safety services will be significantly impacted by new technology and the application of this technology will change how traditional practices are conducted and performed. Technology is a resource to manage information, create efficiencies and streamline services; however, the application of technology requires embracing its potential and understanding how it can be effectively utilized to provide services to the community.
- The City of Minnetonka's public safety services will be impacted by variables beyond its control, such as Homeland Security and the program and financial mandates and directives that come with more integrated and coordinated federal and state-wide assistance for local emergency services. Although new resources and additional leverage with assistance from other agencies is often a positive for public safety, the City will need to understand what new requirements may also come with this assistance.
- The City's comprehensive plan has identified the issues and policy questions which will drive the decisions on public safety services.

Some of these have short term and immediate concerns and others, like Light Rail Transit, have longer term implications. Balancing the short and long-term needs will be a key objective of city leaders.

- The City's delivery of public safety services is impacted by decisions of other agencies, including Hennepin County, MnDot, and neighboring cities. City officials must participate in and be active leaders in the localized discussions and regional considerations for how public safety services are financed and delivered.
- Intergovernmental collaborations and partnerships -- although not a panacea -- will become more and more common and the City should take full consideration of these partnerships and service sharing arrangements when it is both a financial and service benefit to the citizens.
- Historically citizen involvement in planning, organizing and delivering public safety services has been limited. The City should actively and purposely develop programs and activities that seek to engage all citizens in supporting and promoting community wide public safety programs. This will be especially true as the demographics as outlined in the comprehensive plan shift over time.
- The future of public safety services within the City will change during the effective life of this comprehensive plan. Critical public safety services, in particular those that transcend departments (PSAP, EMS, and Duty Crews), will require deliberate and results-based discussions and outcomes between top officials. City administration can serve as a resource and guide to facilitate the discussions as needed.
- The City's present ISO rating is secure. Unlike many of its peers, the City has the potential to enhance and improve its ISO rating. The analysis and recommendations identify the options and ideas for the City in its consideration of the pursuit of this policy objective.
- The City has recently started using the *Duty Crew model* to support its volunteer fire service. As a result of the need to recruit and maintain the volunteer force, the question before the City is should the duty crew model be expanded, and if so, at what cost and when? An expansion of the use of Duty Crews has advantages for the long term from both a recruitment and service perspective. The timing of the additional crews and their evolution into the workplace, especially with their integration with police services is a critical transition issue for the City.
- The City recently completed a 9-1-1/PSAP study that indicated merging with the City of Hopkins is not an immediate priority. However, PSAP services are trending toward consolidation and the City must regularly analyze and evaluate its present service with the possibility of combining or joining with other providers. The opportunity for service level improvements and cost savings, combined with the increasing complexity of regulatory and technical issues has created unprecedented interest in the regionalization of 9-1-1/PSAP services.
- Demographic changes (aging population, youth activities) will impact the city, but in a way that can be managed and proactively monitored

and phased in. Changing population and demographics will incrementally require adaptation and adjustments in the basic elements of emergency services.

- Land uses (commercial, residential, office) within the City are well established and prescribed thoroughly within the comprehensive plan. The most significant question is one of timing: given the economy, it is now uncertain when future land use actions and activities will take place. The timing of this study has allowed the City to pause and reflect upon the present services and plan well, in particular for facilities, for the long term future.
- Within the foreseeable future, the most significant regional factor that will impact the City's delivery of public safety services is the timing and completion of the Light Rail Transit Line. The City's active leadership and involvement in the planning and guiding of the line through the community is essential.
- The City's financial picture is generally stronger than other communities across the region and state. Financial constraints and a recessionary economy will certainly drive policy and operational choices. However, unlike other communities, financial considerations alone will not be the sole driver and determinant of the public safety policy and program options.
- The City's public safety facilities have been generally well maintained. In some cases they have been expanded and improved since originally constructed to keep pace with changes in the department. As the public safety departments continue to evolve so should the facilities. The implementation of any recommendation within this report should consider appropriate facility enhancements, as recommended herein, to continue to allow the departments to perform at their highest levels of efficiency.

The analysis and recommendations that follow support the findings and are organized by major public safety topics. To the extent practical the topics include those services which are unique and distinct to each major area. The topics include:

- Backgrounds: Fire and Police Departments
- Fire Department Operations
- Fire Prevention
- Support Services
- Risks and Demand
- Station Locations
- Fire Hydrants
- Fire Pensions
- ISO Rating
- Public Safety Answering Point/911
- Emergency Medical Services
- Light Rail Transit

- Information Management and Technology
- Retail Crime
- Traffic Safety
- Demographics and Community Outreach – Emergency Management
- Shared Services/Interagency
- Facilities
- City Administration

4. Highlighted Recommendations

There are 41 recommendations contained within the study. A portion of the recommendations are connected and integrated to each other. This point is well recognized by department officials and it will require that city leaders consider and deliberate how the timing of one may affect the timing of another. To that end, the consulting team has identified the most critical priorities within three distinct time frames. The list is not inclusive of all recommendations; rather it is designed to reflect the most important topics the city should consider within the identified time line.

Short term (within one to two years)

- Continue participation in regional discussions regarding alternatives for delivery of 9-1-1/PSAP services and evaluate Minnetonka's role in order to determine the best available long-term option.
- Establish a joint police and fire department operational protocol for response to emergency medical calls.
- Establish an active fire and police department role in planning for light rail facilities and operations to be located within the city.
- Implement planning effort to resolve the Police Department's Evidence and Property storage concerns (whether at Police Department or elsewhere in the City) and place funding in City's C.I.P. Consider same for enclosed, tempered squad car parking.
- Consider phased expansion of the recruitment and retention program for Fire Department volunteers making this a primary objective for the department and the city administration.
- Consider the expansion of the duty crew to 6 FTE.
- Begin hydrant inspection and testing program as called out in national fire codes and ISO requirements.
- Identify private hydrants and explore the feasibility of adding them to the inspection, flowing and maintenance program.

Medium term (within three to five years)

- Enhance the role of business data in the operation of the police department.
- Evaluate the use of social media for public safety purposes.
- Establish a written operations protocol between the police department and Ridgedale Security.
- Integrate Fire, Police, and 911 Dispatch training in areas where the departments' responders could find themselves in "hot zones".
- Expand the Fire Department automatic aid program to include all regional departments to meet NFPA response level standards for NFPA #1720.
- Require all fire department officers to be fire instructor #1 certified and safety officer #1 certified per NFPA standards.

Longer term (beyond five years)

- Develop e-government capabilities to allow certain transactions with the public and other agencies to be conducted on-line.
- Expand integrated emergency management planning and mitigation city wide and then into the private sector.
- Enhance the information management system for Minnetonka to allow all capital and routine expenses to be evaluated and projected at least for five years ahead.
- Certify some of the Public Works mechanics as Emergency Vehicle Technicians to cut down on expensive out sourced repairs and maintenance, then expand program to neighboring jurisdictions as a revenue source for the City.
- Continue current facilities maintenance programs. Make repairs as indicated in the facilities section of the report.
- Look for opportunities at Ridgedale Mall to enhance public presence through the addition of a storefront police or public safety substation.
- Plan for the long term replacement of Station Three (3) near the Opus development with appropriate budgeting and property purchase.

5. Methodology

The study began with a meeting of the City staff and the consulting team to review the background, study objectives, communication expectations and roles and responsibilities throughout the process. The consultant team was provided with relevant documents and background information which was used during the fieldwork and analysis steps. Meetings and tours were held with staff and members of the consulting team. Follow-up contacts, information sharing and communication took place during all of the initial steps up to and including the preparation of the preliminary findings.

A set of preliminary findings was prepared and presented to city staff on April 16. Extensive discussion and review occurred on the findings. City staff provided direction to the consulting team to prepare the analysis and recommendations. The first draft of the recommendations and analysis was delivered to the city staff on June 11. A meeting was held with city staff to review the draft set of recommendations; both formal and informal comments were collected. A summary of the meeting was prepared and used to create the Executive Summary, and next version of the recommendations and analysis. The second draft of the recommendations was sent to city staff on July 9. Comments and questions were received and a new draft was prepared and submitted on August 9. Upon review of the final draft, city staff met with a representative of the consulting team to close out the comment period.

6. Conclusion

Public safety services at their core have stood the test of time. Professional, responsive, and trained on site aid and assistance for emergencies, accidents, and citizens in need is the essence of emergency services. This fundamental responsibility of public safety will not change next year, five years from now or even 20 years ahead. At the most basic level, the average resident may likely attest that neither police nor fire services have changed dramatically over the years: a call, a response, a service. However, the underlying reality is that the fundamentals of delivering emergency services are changing, adapting and evolving continuously. Much of this evolution – virtual in many ways -- is happening within the profession and within the agencies that are responsible for providing the most fundamental of governmental operations in the form of emergency services. It is our goal that this body of work has helped to set the stage for the City of Minnetonka to realize its long-term public safety goals.

City Council Study Session Item #2 Meeting of October 11, 2010

Brief Description: Water and sewer utility rate study

Background

The city periodically contracts with consultants to analyze the city's water and sewer rates, and provide recommendations to ensure that the enterprise remains financially sound and supports the city's water conservation goals.

In 2000, the city adopted a tiered rate structure and long-term plan for rate changes to promote water conservation. In 2008, this rate structure was fine-tuned based on experience, and an additional tiered rate structure was adopted for commercial irrigation accounts to encourage water conservation among some of the city's highest summertime water consumers.

Following completion of the city's comprehensive plan, this year's rate study was commissioned to address the long-term financial implications of the community's changing demographics for the utility system. Specifically, the discounts now provided to seniors are expected to increasingly impact utility resources as the community continues to age, raising questions about the sustainability of the current structure.

Additionally, the lingering economic recession has brought to light various shortcomings in the current rate structure, which does not equitably allocate the cost of the utility system across all users. In particular, low-use consumers who are not eligible for senior discounts are required to unfairly subsidize all other users, particularly high-use customers. These inequities in the current rate structure will compound over time as the community ages, resulting in greater and greater disparities among users.

Finally, the current rate structure that has developed over the years includes a confusing mix of base charges and minimum usage fees that complicate sound utility pricing principles. The current rate system is not readably understandable to customers, and might not be consistent with the city's conservation objectives.

Recommended Fee Restructuring

To address these issues, Ehlers & Associates is recommending structural system changes designed to ensure:

- ✓ **equity and transparency.** Utility charges will more clearly be based on usage, the most fundamental principle of utility pricing. While the structural changes will be revenue neutral and will not generate more total system revenue, the

responsibility to pay for services will be equitably redistributed so that customers who use less will pay less, and will not be forced to subsidize other users. The new system will also be simpler, so customers can more easily understand bills.

- ✓ **long-term financial stability.** With revenue directly tied to usage, the utility system will remain financially healthy as community demographics continue to shift. The restructuring will ensure that future revenue growth will keep pace with future system needs.

The recommended changes will restructure the city's current utility rates into a **Base Fee plus User Fee** system, similar to the structures already used in many other cities:

1. A new **Base Fee** will fully cover the *fixed costs* of the utility system, which are those costs that must be borne to run the system, regardless of whether consumers use less or more water and sewage treatment. The city's current water rate structure only partially covers these fixed costs with a \$0.35 monthly Water Account Maintenance Fee for all customers, plus an \$8.75 monthly Water Availability Charge for "snowbirds" or vacant units. Senior "snowbirds" pay a discounted \$5.25 monthly Water Availability Charge. Additionally, most customers are required to pay \$14.75 for minimum wastewater usage of 15,000 gallons per month, regardless of their actual usage. Sewage bills for seniors 62 or older are only calculated on actual usage rather than be assessed the minimum charge, so they do not pay for any fixed costs of the system. This means about 1,700 customers out of 16,000+ total system customers are not currently required to pay anything to cover these costs, so they are subsidized by all other customers, particularly low users.

To ensure that all customers are consistently charged a fee that fairly covers base system costs, the water account maintenance fee and minimum usage charge on wastewater will both be eliminated, and replaced with a single Base Fee of \$5.20 per month to cover the recently calculated fixed costs for the entire utility system. This simple new fee will treat all utility users equally, and will ensure that low users would no longer be required to subsidize medium and high level users.

2. **User Fees** will continue to be charged based on actual usage, but *sewer rates will be lower* than the otherwise planned increase. This will offset the higher base fee so that changes are revenue neutral over a five-year phase-in to moderate the impact of the changes. Summer wastewater consumption charges will also continue to be based on winter water consumption to eliminate the effect of irrigation use, which does not require wastewater treatment. To provide a break from the recession, city utility customers benefited from a rate increase "holiday" in 2010, and the consultant is recommending the normal inflationary water and sewer rate increases for 2011 so that system revenues will keep pace with costs.

The tiered rate structure previously adopted to encourage water conservation will be retained, but the consultant recommends tweaking the current structure to conform to DNR tier recommendations. Specifically, the lowest tier will be adjusted down from 25,000 gallons to 18,000 gallons, and the price points for the second and fourth tiers adjusted to ensure at least a 25 percent rate differential between each tier and at least a 50 percent rate differential between the last two tiers.

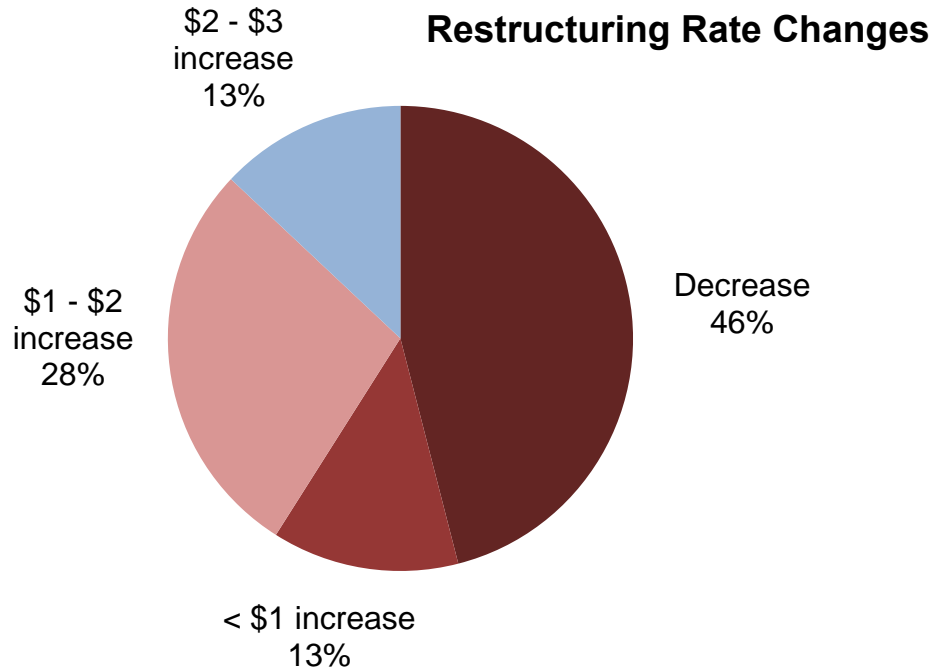
The consultant also analyzed the last ten years of water consumption by city customers to determine whether the tiered rate structure has been effective at encouraging conservation. The results were inconclusive, likely explained by an extensive industry analysis, which concluded that rate structures must be extremely steep to encourage significant changes in water consumption. Such punitive tiers are typically used in locations with dramatic water shortages, like communities in California and Arizona. Another factor is the delay in customer response time provided under a quarterly billing system, particularly during summer irrigation months. By the time customers receive the feedback of higher summer bills, the season has passed, and there is less incentive for customers to alter their use. This consideration lends support to the city's decision to move to monthly billing.

Changes in customer bills

Although the recommended rate restructuring will not generate more total revenue than the current structure over the recommended five-year phase-in, the responsibility to cover fixed system costs will be redistributed so that all users will fairly pay their share of those costs. As fee equity is restored, bills for lower users will go down, and bills for higher users will go up. Bill changes for those customers with senior discounts will vary depending on their usage.

| Residential Water/sewer usage | 2011 | | | 2013 | | |
|----------------------------------|---------|---------|----------|---------|---------|----------|
| | Current | New | Change | Current | New | Change |
| Senior user (4,000/3,000) | \$16.54 | na | na | \$18.02 | na | na |
| Low user (3,000/2,000) | 20.93 | \$12.65 | \$(8.28) | 22.92 | \$16.04 | \$(6.88) |
| Medium low (5,000/4,000) | 24.55 | 22.45 | (2.10) | 26.80 | 26.70 | (0.10) |
| Medium user (7,000/5,000) | 28.17 | 29.52 | 1.35 | 30.68 | 34.36 | 3.68 |
| Medium high (9,000/6,000) | 35.15 | 36.95 | 1.80 | 38.25 | 42.41 | 4.16 |
| High user (11,000/8,000) | 45.49 | 47.47 | 1.98 | 49.51 | 53.85 | 4.34 |

Since low users will no longer be subsidizing medium and high users, 46 percent of all residential customers will experience decreases in their average monthly bills in the first year due to the restructuring. Of those who will pay more, about three-fourths will see less than a \$2 increase in their monthly bills. No customer's monthly bill will increase more than \$3 due to the restructuring.



Implementing a more equitable rate structure will also benefit smaller commercial users. Small businesses will see significant reductions in their utility bills when minimum usage charges are replaced with a base charge that covers fixed system costs. Water and sewer bills for medium and large businesses will be similar under the new structure, since those users have already been paying use-related charges.

| Commercial Water/sewer/irrigation | 2011 | | | 2013 | | |
|--------------------------------------|---------|---------|-----------|---------|---------|-----------|
| | Current | New | Change | Current | New | Change |
| Low user (7/3) | \$62.17 | \$25.98 | \$(36.19) | \$68.10 | \$30.41 | \$(37.69) |
| Medium user (21/21/35) | 187.02 | 187.85 | 0.83 | 202.02 | 204.83 | 2.81 |
| High user (63/63/155) | 703.46 | 703.87 | 0.41 | 759.35 | 760.90 | 1.55 |

Comparison with similar cities

Minnetonka's recommended 2011 base fee is among the lower base charges of comparable cities - 37 percent lower than the 2010 average. The city has a steeper water conservation rate structure than other cities, and the lowest tier, which encompasses average users, is 13 and 20 percent higher for sewer and water, respectively. As other cities establish their 2011 rates, these gaps will close.

| City (2010) | Base | Water Rates | Sewer Rates |
|--------------------------|-------------|------------------|-------------|
| Edina | \$19.48 | \$1.48-\$3.07 | \$3.76 |
| Bloomington | 15.75 | 2.18 | 2.64 |
| Apple Valley | 11.70 | 1.04-1.93 | 2.07-3.34 |
| Maple Grove | 9.60 | 0.90 | 1.35 |
| Plymouth | 8.31 | 1.22-2.63 | 2.90 |
| Average | 8.28 | 1.50-2.40 | 2.73 |
| Burnsville | 6.00 | 2.14-3.35 | 2.68 |
| St Louis Park | 5.92 | 1.72-3.25 | 2.95 |
| Minnetonka (new)* | 5.20 | 1.81-3.64 | 3.09 |
| Eagan | 3.48 | 1.40-1.75 | 2.70 |
| Lakeville | 3.28 | 0.79-2.00 | 2.99 |
| Eden Prairie | 2.33 | 1.75 | 2.20 |

* Base fee for 2011 will be only \$1.04, which is the first year of a five-year phase-in.

Discussion question: Does council concur with the recommended utility rate structure changes and phase-in?

Other Recommendations

The consultant also recommends consideration of two additional changes.

Apartment buildings. Currently, apartments with four or more units are billed for water at the commercial rate structure under a single bill and single meter, which is \$1.75 per 1,000 gallons, with a summer conservation surcharge of an additional \$0.25 per 1,000 gallons. As a result, apartment dwellers have no incentive to conserve water, as do other residential properties in Minnetonka. The consultant recommends applying the city's residential water tiered rate structure to apartments by establishing the tiers equivalent to the rate times the number of units in each building.

Monthly billing. As council knows, the city has initiated planning for the conversion from quarterly to monthly utility billing. Although implementation of electronic billing and online credit card payment has been delayed until next year by LOGIS, staff is

proceeding with planning for contracting out printing, stuffing and mailing bills, and the city already offers electronic payment directly from customer checking accounts.

Because the planned quarterly to monthly conversion could entail additional costs, primarily for additional personnel to manage the more frequent billings, staff has been exploring other more cost-effective options. Rather than make available monthly billing to all customers, staff recommends offering monthly billing only for those customers who agree to both receive their invoice and pay electronically. Once such accounts are set up, there would be no additional administrative costs, and the city should actually see a reduction in costs related to paper bill printing, stuffing and mailing.

The 2010 Community Survey reported that about one-half of city residents would likely use an on-line bill payment system, and the recommended approach could avoid any cross-subsidy of costs if implemented appropriately. As one option, customers who wish to retain quarterly paper billing could be required to pay for the additional costs of retaining the more expensive system – possibly through a higher base fee.

Discussion question: Does council agree with these recommendations? If so, staff will develop specific proposals for council consideration.

Submitted through:
John Gunyou, City Manager
Geraldyn Barone, Assistant City Manager

Originated by:
Merrill King, Finance Director
Brian Wagstrom, Public Works Director

October, 2010

Water and Sanitary Sewer Utility Rate Study

City of Minnetonka, Minnesota



Prepared By:

City Staff

And

Ehlers

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Introduction

The City of Minnetonka requested that Ehlers & Associates review its water and sanitary sewer system utilities to:

1. Determine whether rates need to be adjusted for 2011 and beyond to pay for the ongoing operations and capital improvements, and to maintain adequate cash balances;
2. Ensure the rate structure distributes the costs of operating the system across utility users consistent with the policy objectives of the Council;
3. Ensure appropriateness and fairness in special discounted rates; and
4. Provide an analysis encompassing the impacts of moving from quarterly to monthly billing, including funding requirements, electronic billing, and outsourcing of paper bill preparation and mailing.

Background

In September of 2000, prior to completion of the water treatment plant, the City undertook a rate study to ensure rates would be sufficient to pay for the new infrastructure, continue to replace aging water and sewer lines on an as-needed basis, and maintain adequate reserves. That study also suggested that the City move from a flat water rate to a tiered rate structure to encourage water conservation. In 2003 the City adopted a new tiered rate structure. A tiered water rate structure charges higher water rates at higher levels of consumption. The rationale for a tiered rate structure is typically three-fold:

1. A tiered rate structure can promote water conservation and is one method that is in compliance with Minnesota Statute 103G.291 and is recommended by the Minnesota Department of Natural Resources (“DNR”).
2. Cities construct water systems to meet the capacity of peak watering days in the summer. In Minnetonka, the peak summer demand is about 23 million gallons per day, or approximately three times the average daily winter demand. The water pumping, storage and treatment systems must be constructed large enough to accommodate this peak. Since a tiered rate system charges more per gallon for peak use, it allocates the capital cost of “oversizing” the system to the peak users.
3. By charging more for water used on the lawn than water used in the home, the City is ensuring that essential water use remains as affordable as possible.

The City of Minnetonka is part of the Metropolitan Environmental Services (MCES) regional sanitary sewer system. The MCES collects the City's outflow and treats it prior to discharge. The MCES charges a disposal fee to the City based on outflow measured in the MCES interceptor. Within the last several years, the MCES has imposed surcharges and required capital improvements to address the flow of storm water into the sanitary sewer system (Inflow and Infiltration).

It should be noted that the City currently has one accounting fund for water and sanitary sewer. Municipal utility funds are considered "enterprise funds," meaning they are intended to be operated as a private enterprise in which the fee revenue pays for all expenses. It is permissible for the City to combine the revenues and expenditures in one fund and, for example, use water revenues to pay for sewer expenditures. However, it is easier for the Council to make policy decisions about rates when it is clear whether costs are attributable to sewer or water. For this analysis, we segregated the revenues and expenses for each utility to determine whether water and sewer "pay their own way."

Assumptions

This study incorporates the proposed 2011-2015 capital improvement plan for the utilities. The proposed capital improvement plans for water and sewer include the following improvements:

- Sewer and water main replacement on an as-needed basis
- Water tower maintenance
- Water treatment plant rehab and upgrades
- Lift station rehabilitation
- Vacuum sewer cleaner
- Dump/Plow truck replacements
- Infiltration and Inflow improvements and grants
- Public works building improvements
- Vehicles and equipment

Following is a chart that summarizes the significant assumptions in the rate study.

| | Assumption |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Growth and Utility Usage | <ul style="list-style-type: none"> • No significant new connections. • Water usage will continue at 2009 (non-drought) levels. • Sewer usage will remain constant. |
| Operating Expenses | <ul style="list-style-type: none"> • City expenses increase 5% annually. • MCES sanitary sewer disposal fees increase 5% annually. |
| Capital Expenses | <ul style="list-style-type: none"> • Average \$2.1 million per year including Infiltration and Inflow costs. • Average capital costs are in today's dollars. Costs of improvements are inflated 5% per year in the rate study. |

Analysis of Current Sewer and Water Rates

The City invoices residents on a quarterly basis, and commercial properties on a monthly basis.

Sanitary Sewer Rates

The 2009 and 2010 sewer rate is \$2.95 per 1,000 gallons. The residential customer's sewer usage is assumed to be identical to water usage during the winter quarter when there is almost no outside water use (car washing, lawn sprinkling, swimming pool, etc.). There is a \$44.25 minimum quarterly fee, regardless of use, that covers the first 15,000 gallons. The minimum charge helps pay for the fixed costs of the system.

For senior citizens, those 62 years of age or older, bills are calculated based on actual usage, rather than the \$44.25 minimum charge. Thus, these users do not pay for any fixed costs of the system.

Water Rates

There are two components to the City's water utility revenues:

Fixed Charges remain the same regardless of consumption. The City charges a Water Availability Charge, currently set at \$26.25 per quarter for a residential unit (\$15.75 for seniors). This charge applies only to "Snowbirds" and vacant units that would otherwise not receive a water bill. In addition, the City collects a \$1.00 account maintenance fee with each bill.

Usage Fees are based on the metered use of water, and in Minnetonka, water users do not pay a water availability charge, only the account usage and maintenance fees. Beginning in 2003 the City instituted a tiered rate system, as discussed above. From 2003 through 2007, the City has raised the water rate for each usage tier by a fixed five cents per thousand gallons per year. For 2008 and 2009, rates were increased by 2.8%, instead of a fixed amount. 2010 rates are the same as 2009.

The current water usage rates are below.

2009 & 2010 Minnetonka Water Rates

| Residential | Rate | Commercial | Rate | Irrigation | Rate |
|--------------------|-------------|-------------------|-------------|-------------------|-------------|
| 0 – 25,000 | \$1.75 | Winter | \$1.75 | 0 – 75,000 | \$2.00 |
| 25,001 – 40,000 | \$2.00 | Summer | \$2.00 | 75,001 – 175,000 | \$2.52 |
| 40,001 – 70,000 | \$2.52 | | | Over 175,000 | \$3.50 |
| Over 70,000 | \$3.50 | | | | |

Compared to many cities, Minnetonka collects a much higher percentage of its revenue from usage fees. Most cities have a fixed quarterly charge or minimum usage fee that applies to all residents. Minnetonka's practice of tying water bills closely to usage will help promote water conservation.

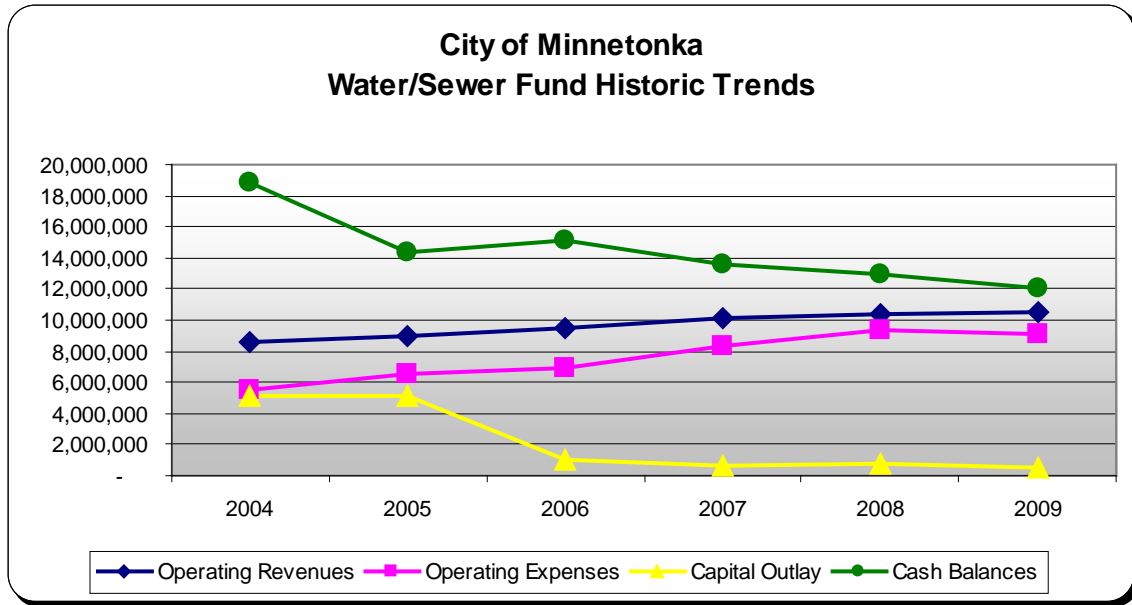
Financial Objectives and Water and Sewer Rates

The water revenues currently exceed the administrative, operating and capital costs for the water utility. Historically operating costs have increased 5% annually while water rates have increased 2-3% per year. Capital expenses and debt payments have also increased.

In 2009, the sewer system operations broke even. That is, sewer revenues were sufficient to pay for operating expenses and MCES disposal fees, but not depreciation or capital expense. Capital expenditures were paid from cash balances or water revenues. Beginning in 2010, the sewer capital costs increase significantly with up to \$900,000

budgeted per year for Inflow and Infiltration improvements and grants provided to residents to modify their sump pump discharge.

The following graph for the Water and Sewer Utility shows the trend of operating revenues, operating expenses, capital outlay with cash balances. Cash balance has been at healthy levels because revenues have exceeded expenses and bond issues for capital projects have been managed effectively. The balance will serve as a method for financing future major infrastructure improvements.



Cost Control

The utility system has fixed costs and variable costs. Fixed costs remain relatively constant with the exception of inflation, regardless of consumption, and include debt service, personnel, and facility costs. Variable costs change with consumption, and include three primary categories:

- Electric costs for pumping water (almost \$650,000 in 2009)
- Chemical costs for water treatment
- MCES Sanitary Sewer Disposal Fees

Conservation can help reduce the variable costs of operating the water and sewer system and keep rates more affordable. Reduced water consumption will reduce electricity costs for pumping and treatment chemicals. In addition, the wells can operate more efficiently and at greater capacity if the water table does not decline. Finally, controlling peak daily

demand in the summer through every-other-day watering schedules and conservation may reduce the need for expanding the infrastructure or replacing wells.

Similarly, reducing sanitary sewer flow can reduce variable costs. About 70% of the sewer utility’s costs – namely the MCES disposal fees – are variable costs. We estimate that the MCES charges the City for 32% more outflow than the usage which the City charges its customers, primarily as a result of Inflow and Infiltration. In 2008, this represented a \$400,000 expense to the City. Reducing sewer outflow, both through reduced Inflow and Infiltration and reduced consumption will reduce the City’s sewer expenses.

Proposed Rates

The proposed rate structure for 2010 is designed to accomplish the following goals:

1. *Continue to align revenues with expenses.* Revenues should correlate to cost increases, and increase annually on a percentage basis. Over time, sewer revenues should begin to pay for all sewer related costs.
2. *Consistency of rates between users.*
3. *Implement adjustments to conservation rates to be in full compliance with state statute.* In the past year, the DNR has provided guidelines to communities regarding conservation rates.

Proposed Sewer Rates

Sewer charges would continue to be based on water usage during the winter quarter but would eliminate the existing minimum consumption for residential and commercial users. Currently, consumers who use more than the minimum water during the winter quarter and senior citizen discounted accounts do not pay for any fixed costs of the system, only the variable costs. We are recommending a five-year phase in of a fixed fee for all accounts so that all users pay for both fixed and variable costs of the system.

| Sewer Fund | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------------------------|---------|---------|---------|---------|---------|---------|
| Proposed Option | | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% |
| 5-Year Phase-in for All Accounts | | | | | | |
| Fixed Per Account Charge per month | N/A | \$ 1.04 | \$ 2.18 | \$ 3.44 | \$ 4.79 | \$ 6.27 |
| Consumption Rate per 1,000 gallons | \$ 2.95 | \$ 3.09 | \$ 3.24 | \$ 3.39 | \$ 3.55 | \$ 3.72 |

Recommended Option

We are recommending the City consider a 5-year phase in period for all accounts (or 20% per year), as shown in the table above.

The rates shown on the previous page would be the usage rate for all users, including senior citizen discounted accounts. This option is revenue neutral over five years and would require an annual 4.75% usage rate increase.

Proposed Residential Water Rates

This rate study builds on the successes implemented from the previous rate study. Thus, the focus of this study was to compare the City’s current structure with the statutory language and guidance provided by the DNR (Appendix C). There are four areas we recommend changes to.

- 1) *Apartment Buildings:* M.S. 103G.291 states, “... The rate structure must consider each residential unit as an individual user in multiple-family dwellings.” This means that an apartment building with 10 units would be billed using the residential tiered-rate structure. However, instead of having the first tier at 25,000 gallons, it would be 250,000 gallons (or 25,000 gallons x 10 units.) Currently, apartments with four or more units are billed with the commercial rate structure. ***We are recommending they be billed with the residential accounts, using the same tiered rate structure, but on a per unit basis.*** The impact on total water revenues is minimal with the impact on users ranging from a (4.2%) decrease to 6.6% increase.
- 2) *Adjustment of Residential Tier Breaks:* The DNR has stated in previous conversations they would like tier breaks to be less than or equal to 20,000 gallons per quarter. Cities with their first tier break greater than 20,000 gallons will need to justify the higher tier break. Currently, more than 70% of Minnetonka’s usage is in the first tier. ***We are recommending the City adjust the first tier down from 25,000 gallons to 18,000 gallons.*** This would shift approximately 10% of usage from the first tier to the second tier. The impact would be \$1.75 per account per quarter for usage in excess of 18,000 gallons (using current 2010 rates.) Impact on total water revenues is less than 1%.
- 3) *Adjust rates for Residential rate structure:* The DNR states in their handout (see attached) that they recommend at least a 25% rate increase between each tier and at least a 50% rate increase between the last two tiers. Currently, the City has a 14.3% increase between the 1st and 2nd tier, 26.0% between the 2nd and 3rd tier, and 38.9% between the 3rd and 4th tier. ***We are recommending the City adjust the rates as follows:***

| Tier | Existing 2010 Rate | Adjusted 2010 Rate |
|----------------------|--------------------|--------------------|
| 1 st Tier | \$1.75 | \$1.75 |
| 2 nd Tier | \$2.00 | \$2.10 |
| 3 rd Tier | \$2.52 | \$2.52 |
| 4 th Tier | \$3.50 | \$3.52 |

This would adjust the tier breaks to 20% between the 1st and 2nd tier, 20% between the 2nd and 3rd tier, and 40% between the 3rd and 4th tier. The DNR has stated, in previous conversations, that this would be acceptable for other cities, thus it would work for Minnetonka. The impact of this shift would be \$1.50 per quarter for usage in excess of 40,000 gallons (using the current 2010 rates.) Impact on total water revenues is less than 1%.

- 4) *Elimination of Account Maintenance Fee:* This fee is currently \$1.05 per quarter, and accounts for approximately 1% of annual water revenues. ***Since this fee generates so little revenue, we are recommending it be absorbed within the annual water rate increase for 2011 and forward.***

The proposed rate structure for 2011 and beyond is in the following chart.

| Water Fund | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------------|---------|--------------|--------------|--------------|--------------|--------------|
| Proposed Rate Structure | | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Residential | | | | | | |
| 0 - 8,333 gallons | \$ 1.75 | N/A | N/A | N/A | N/A | N/A |
| 8,334 - 13,333 gallons | 2.00 | N/A | N/A | N/A | N/A | N/A |
| 13,334 - 23,333 gallons | 2.52 | N/A | N/A | N/A | N/A | N/A |
| Over 23,333 gallons | 3.50 | N/A | N/A | N/A | N/A | N/A |
| 0 - 6,000 gallons | N/A | \$ 1.81 | \$ 1.87 | \$ 1.94 | \$ 2.01 | \$ 2.08 |
| 6,001 - 13,333 gallons | N/A | 2.17 | 2.25 | 2.33 | 2.41 | 2.49 |
| 13,334 - 23,333 gallons | N/A | 2.60 | 2.69 | 2.78 | 2.88 | 2.98 |
| Over 23,333 gallons | N/A | 3.64 | 3.77 | 3.90 | 4.04 | 4.18 |

This proposed annual increase of 3.5% is higher than the current planned annual increase of 2.8% due to no rate increases between 2009 and 2010.

Proposed Commercial and Irrigation Water Rates

Commercial customers are billed monthly. Over 40% of commercial and institutional water customers have a separate irrigation meter for sprinkling. Therefore, we recommend the City maintain the existing rate structure for commercial and irrigation customers, and increase rates 3.5% annually.

| Water Fund | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------------|---------|--------------|--------------|--------------|--------------|--------------|
| Proposed Rate Structure | | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Commercial | | | | | | |
| Base Rate | \$ 1.75 | \$ 1.81 | \$ 1.87 | \$ 1.94 | \$ 2.01 | \$ 2.08 |
| Summer Surcharge (May - Sept.) | 2.00 | 2.17 | 2.25 | 2.33 | 2.41 | 2.49 |
| Irrigation | | | | | | |
| 0 - 75,000 gallons | \$ 2.00 | \$ 2.17 | \$ 2.25 | \$ 2.33 | \$ 2.41 | \$ 2.49 |
| 75,001 - 175,000 gallons | 2.52 | 2.60 | 2.69 | 2.78 | 2.88 | 2.98 |
| Over 175,000 gallons | 3.50 | 3.64 | 3.77 | 3.90 | 4.04 | 4.18 |

Impact of Proposed Rates on Sample Customers

The chart in Appendix B compares the existing and proposed monthly bills for various utility customers in the City of Minnetonka.

Comparison with other Communities

The chart in Appendix A compares the existing and proposed monthly bills to other cities. The proposed sanitary sewer and water rates remain competitive with Minnetonka's neighbors.

Cash Balances and Prudent Use of Debt

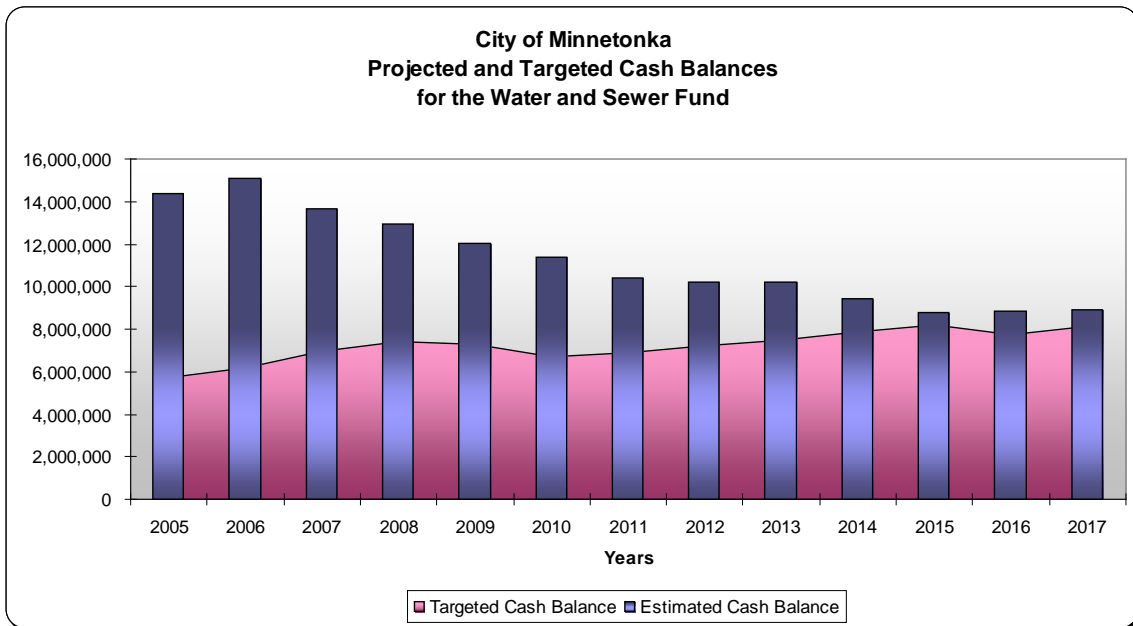
Operating Reserve

The city is targeting a minimum cash balance for operations of an amount equal to six months of operating expenses plus annual debt service, plus 50% of depreciation. Cash balances are available to accommodate fluctuations in revenue depending on weather and higher than anticipated operating expenses.

Capital Reserve

The remaining cash balance should be held for long-term replacement of the system, which will not be able to be funded with growth. The model maintains the ending cash balance over time. The graph below portrays the projected cash balances based on the stated assumptions and proposed rates. The proposed rates should be adequate to maintain the minimum target cash balance and pay for capital costs without using debt.

City staff reports they intend to conduct a thorough analysis in 2011 of the utility's infrastructure as a follow-up to its 2000 study. The results will guide capital needs for the next ten years and will dictate use of the capital reserve.



Utility Billing Process

Background

The City currently uses senior citizen volunteers from the community to assist with the stuffing of utility bills. This is a monthly process that involves the Senior Coordinator, Utility Billing Clerk, and others from the Finance Department. Future use of electronic billing and payment options could allow the City to move from quarterly to monthly billing for residential customers. This option, plus recent enforcement by the United States Postal Service (“USPS”) to comply with their “new” requirements to continue to receive a bulk or discounted postage rate of 10.5 cents per bill, caused the City to request an analysis of this process.

Current Process

Conversations with city staff included the Senior Coordinator, Utility Billing Clerk, and Assistant Finance Director to determine existing processes. Although it is a good community outreach program and is enjoyed by the senior citizens who participate, the existing process is labor intensive for the finance department. On average, the Utility Billing Clerk spends nine (9) hours per month to sort bulk from single bills, fold bills, group bills into batches of 50, separate envelopes, bulk mail preparations with the USPS, and sorting zip codes outside of Minnetonka. Summer months are more labor intensive due to the increasing number of bulk bills from irrigation meters.

The City estimates that 0.5 FTE is currently used to process cash receipts on a monthly basis. This does not include phone call inquiries or processing the existing ACH and credit card payments.

Moving from a quarterly to monthly billing would result in a 170% increase in the number of bills and cash receipts processed on a monthly basis. Below are recommendations to help offset the need for additional FTE's.

- **Recommendation #1: Combination of multiple meters per customer account.** Currently the City prints one bill per meter. The combination of multiple meters on to a single bill would reduce printing costs, postage and labor. The Utility Billing Clerk would not need to sort through the bills to match up the irrigation and domestic meters so that the commercial accounts only receive one envelope per billing cycle. The City has requested a quote from the LOGIS software consortium to see what it would cost to implement this recommendation.
 - ✓ **Issue:** There would need to be a one-time change to the utility billing system to combine the domestic and irrigation water meters under one customer number. A time estimate has not been done at this point.
- **Recommendation #2: Outsource folding / stuffing / mailing of bills to an outside vendor.** We have received quotes from two outside vendors who would fold, stuff, and mail utility bills. We are estimating current costs include an internal cost of \$3,500 per year based on the 9 hour estimate mentioned previously for the Utility Billing Clerk's time, assuming the current quarterly billing method. We project that no changes to the current process would result in the City losing its bulk rate discount from the USPS. This would result in an increase in postage rates of \$8,000 per year. A brief cost/benefit analysis is as follows:

| Vendor | Quarterly Billing | Monthly Billing |
|--------------------------|-----------------------|------------------------|
| Current Staffing | \$11,500 / yr | \$31,500 / yr |
| | | |
| NPi | | |
| \$50.00 Setup Fee | | |
| \$0.022 per bill | \$2,200 / yr | \$5,000 / yr |
| Cost / (Benefit) | (\$9,300) / yr | (\$26,500) / yr |
| | | |
| Braemer Mailing | | |
| \$35.00 Delivery Fee | | |
| \$0.02 Stuffing per bill | | |
| \$0.01 Sealing per bill | \$2,600 / yr | \$6,500 / yr |
| Cost / (Benefit) | (\$8,900) / yr | (\$25,000) / yr |

- ***Recommendation #3: Implementation of on-line, or electronic bill payments.*** Currently the City accepts ACH payments and one-time credit cards for payment of utility bills as non-traditional payment methods. Approximately 10% of billing customers currently use this method of payment. It is our understanding the City is in the process of implementing the eCare payment module from CIS/Advanced, which would incorporate online bill review, history review, bill payments, submission of meter readings, and move in/out information. Another option currently in process is the recurring credit card payment method. This method is similar to ACH, which automatically takes the payment from a checking account, but applies the payment to a credit card each billing cycle instead. ***We recommend the City implement both the eCare and recurring credit card processes prior to changing the billing cycle for residential customers from quarterly to monthly. This would help offset the increased work load associated with processing payments by city staff.*** There are no additional costs from LOGIS to implement this recommendation.
 - ✓ Excel Energy estimates 35% of their customers currently use online methods of bill payment. The City would need more than 60% penetration for monthly billing to avoid the need for additional FTE's due to increasing billing frequency.
 - ✓ City staff reports the city's 2010 community survey indicated that 44% of the residents favor shifting from quarterly to monthly billing (versus 40% oppose), and 47% are "very likely" and "somewhat likely" to use on-line bill payment for water and sewer services.
 - ✓ One variation of this option would be to only offer monthly billing to customers who agree to sign up for online billing and payment options. This would eliminate any additional staff time needed to process the bills and cash receipts. The City is currently working with LOGIS to determine feasibility of this option.
- ***Recommendation #4: Implementation of Lock Box Services for processing utility bill payments.*** We have received quotes from US Bank and Wells Fargo for retail lock box services. There are two quotes from Wells Fargo, one is as a third party vendor through 1st Minnetonka Bank, which is the City's current financial institution, and the other is directly through Wells Fargo. The lowest bid is from Wells Fargo via 1st Minnetonka Bank, which equates to less than 1.0 FTE. Without this service, the City would need an additional estimated 1.5 FTE's to process bill payments.
 - ✓ There would be a one-time set-up charge of \$4,154.75 from Wells Fargo and an additional one-time charge from LOGIS of \$2,460.00 for changes to the payment stub.

Recommendations

- ❑ Adopt rates in 2011 that address the recommendations from the DNR for water conservation rates.
- ❑ In 2011, continue to apply a regular and modest percentage increase to rates annually. For sanitary sewer the proposed increase is 4.75% in 2011 and thereafter. For water the proposed increase is 3.5% annually.
- ❑ Adjust rates to ensure equitable and fair distribution of fixed costs to all users of the system by establishing a minimum sewer charge for all accounts and eliminating the account maintenance fee, which would result in a net annual sewer rate increase of less than 5.0% per year for all customers.
- ❑ Continue to review the rate structure periodically.
- ❑ Continue to maintain cash reserves to allow the City to pay for capital improvements without borrowing.
- ❑ Continue to annually increase development related fees for water and sanitary sewer by an amount that reflects the City's inflationary cost increases on capital improvements. A review of these charges was not included in this study.
- ❑ Display the rate structure on the bills so customers can see how to reduce their bills by lowering consumption.
- ❑ Continue efforts to reduce sanitary sewer outflow to the MCES, primarily by addressing inflow and infiltration.
- ❑ Consider moving to a monthly billing for residential customers. This will provide more immediate feedback to consumers on the relationship between consumption and bills.
- ❑ Consider recommendations associated with current billing / stuffing / mailing process to mitigate costs and limit need for additional staff.

The City can also take several steps outside of the utility rates and billing procedures to promote water conservation. Many of these recommendations are already in place.

- ❑ Continue to monitor monthly usage and notify customers if there is indication of a leak.
- ❑ Continue and expand the City's program of offering rebates on rain sensors. Rain sensors are simple and inexpensive controls that prevent an irrigation system from

- turning on when it is raining. They are required by state law, but the DNR does not enforce their use.
- ❑ Research the cost effectiveness of installing “smart” irrigation controllers on City properties, including parks.
 - ❑ Monitor irrigation meter usage for unseasonably high water use, suggesting leaks, and notify property owners.
 - ❑ Continue the watering ban between 11 a.m. and 5 p.m.
 - ❑ Communicate the success the residents have already achieved in water conservation, and explain the new rates in City newsletters, bill inserts, and other medium.
 - ❑ Create a calculator on the City’s website that allows customers to calculate the appropriate amount of water to use for irrigation. For example, a business would input the size of its landscaped area and learn how much water it should take to water the recommended one inch per week.

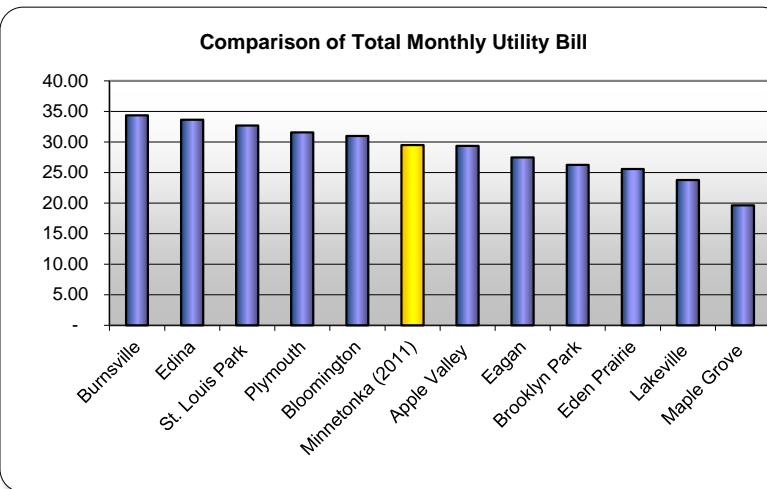
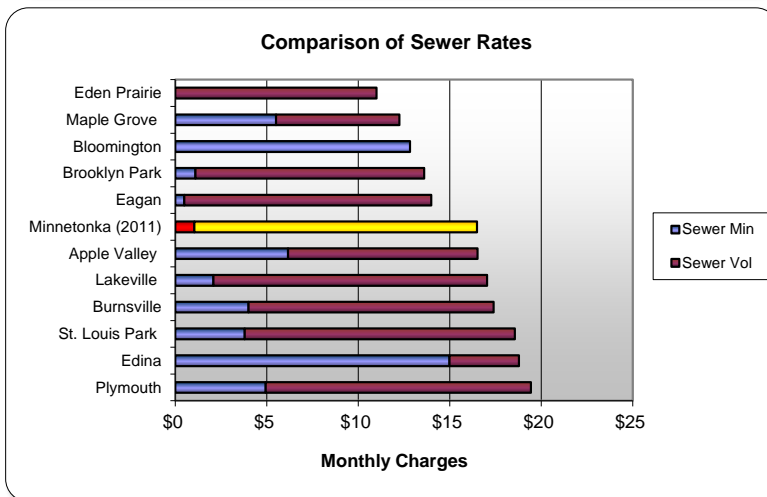
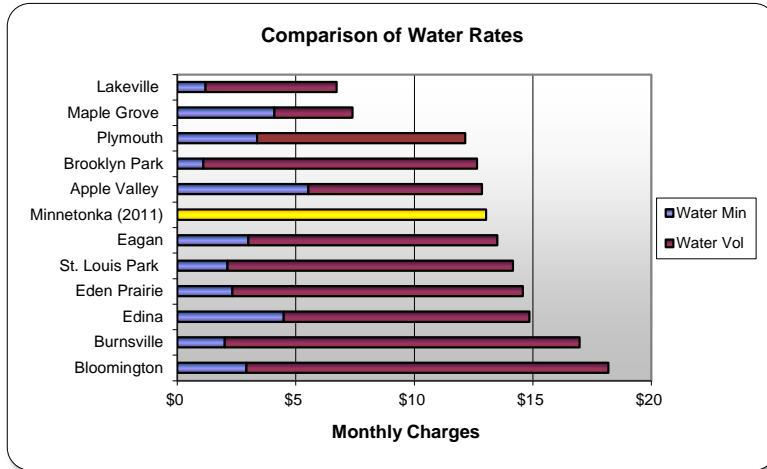
Summary

The City of Minnetonka has managed its utility funds well, and as a result will be able to pay for expected future improvements with cash. In addition, the tiered rate structure adopted in 2003 has promoted water conservation. However, the pressure of rising operating costs, particularly the MCES disposal fees, has put new financial pressures on the utility fund.

The rate study indicates that rate increases are necessary in 2011 to maintain the structural balance of the utility fund. Modest and steady annual rate increases will be needed for water and sanitary sewer to pay for City operating costs and capital improvements. This report recommends strategically implementing water rate increases to enhance the City’s conservation efforts and reduce operating costs.

Appendix A

Comparison assumes monthly usage of 7,000 gallons of water and 5,000 gallons of sewer.



**CITY OF MINNETONKA
2010 MONTHLY WATER AND SEWER RATE COMPARISON**

| City | Water Usage Rate | Tiered Rate Structure | Sewer Usage Rate | Tiered Rate Structure | Base Charges |
|---------------------------------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| Edina <i>Converted from cubic feet</i> <i>Converted from Quarterly</i> | \$1.48 \$1.97 \$3.07 | 0 - 8,726 gallons 8,727 - 16,206 gallons Over 16,206 gallons | \$3.76 | Over 3,989 gallons <small>Base includes min. consumption</small> | \$19.48 |
| Bloomington <i>Converted from Bi-Monthly</i> | \$2.18 | per 1,000 gallons | N/A | Flat Fee | \$15.75 |
| Apple Valley <i>Converted from Quarterly</i> | \$1.04 \$1.06 \$1.29 \$1.66 \$1.93 | 0 - 5,000 gallons 5,001 - 10,000 gallons 10,001 - 15,000 gallons 15,001 - 35,000 gallons Over 35,000 gallons | \$2.07 \$2.09 \$2.31 \$2.93 \$3.34 | 0 - 5,000 gallons 5,001 - 10,000 gallons 10,001 - 15,000 gallons 15,001 - 35,000 gallons Over 35,000 gallons | \$11.70 |
| Maple Grove <i>Converted from Quarterly</i> | \$0.90 | Over 3,333 gallons <small>Base includes min. consumption</small> | \$1.35 | per 1,000 gallons | \$9.60 |
| Plymouth <i>Converted from bi-monthly</i> | \$1.22 \$1.53 \$2.63 | 0 - 6,250 gal 6,251 - 17,500 gal Over 17,500 gal | \$2.90 | per 1,000 gallons <small>Senior discount is 10%</small> | \$8.31 |
| Burnsville | \$2.14 \$2.68 \$3.35 | 0 - 15,000 gallons 15,001 - 50,000 gallons Over 50,000 gallons | \$2.68 | per 1,000 gallons | \$6.00 |
| St. Louis Park <i>Converted from cubic feet</i> <i>Converted from Quarterly</i> | 1.72 2.17 3.25 | 0 - 9,973 gal. 9,974 - 19,947 gal. Over 19,947 gal. | \$2.95 | per 1,000 gallons | \$5.92 |
| Lakeville <i>Converted from Quarterly</i> | \$0.79 \$1.24 \$2.00 | 0-10,000 gallons 10,001-16,333 gallons Over 16,333 gallons | \$2.99 | per 1,000 gallons | \$3.28 |
| Eagan <i>Converted from Quarterly</i> | \$1.40 \$1.75 | Below Winter Quart. Avg. Above Winter Quart. Avg. | \$2.70 | per 1,000 gallons <small>Senior discount is 50%</small> | \$3.48 |
| Eden Prairie <i>Converted from Quarterly</i> | \$1.75 | Over 1,333 gallons <small>Base includes min. consumption</small> | \$2.20 | per 1,000 gallons | \$2.33 |
| Brooklyn Park <i>Converted from Quarterly</i> | \$1.65 \$2.55 \$3.30 | 0 - 13,333 gallons 13,334 - 26,667 gallons Over 26,667 gallons | \$2.50 | per 1,000 gallons | \$2.20 |
| Minnetonka (2011) | \$1.81 2.17 2.60 3.64 | 0 - 6,000 gal 6,001 - 13,333 gal 13,334 - 23,333 gal Over 23,333 gal | \$3.09 | per 1,000 gallons | \$1.04 <i>See Note</i> |

Note: The base rate for the City of Minnetonka is the first year of a five-year phase-in plan.

Appendix B

COMPARISON OF PROPOSED BILLS FOR SAMPLE WATER AND SEWER CUSTOMERS

| | | Monthly Bill for Residences | | | | | | | | | |
|---------------------|-----------------------|-----------------------------|----------|----------|----------|----------|----------------------------------------------------------------------------|-----------|-----------|-----------|-----------|
| Percentile of Users | Sample Resident | Existing | | | | | Recommended Option | | | | |
| | | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 |
| 50% | Senior User | | | | | | No segregated rate for Seniors. See below for an estimate based all usage. | | | | |
| | 4,000 gallons water | \$ 7.24 | \$ 7.48 | \$ 7.76 | \$ 8.04 | \$ 8.32 | | | | | |
| | 3,000 gallons sewer | 9.30 | 9.78 | 10.26 | 10.77 | 11.31 | | | | | |
| | Total Bill | \$ 16.54 | \$ 17.26 | \$ 18.02 | \$ 18.81 | \$ 19.63 | | | | | |
| | Increase / (Decrease) | | | | | | | | | | |
| 15% | Low User | | | | | | \$ 5.43 | \$ 5.61 | \$ 5.82 | \$ 6.03 | \$ 6.24 |
| | 3,000 gallons water | \$ 5.43 | \$ 5.61 | \$ 5.82 | \$ 6.03 | \$ 6.24 | \$ 7.22 | \$ 8.66 | \$ 10.22 | \$ 11.89 | \$ 13.71 |
| | 2,000 gallons sewer | 15.50 | 16.30 | 17.10 | 17.95 | 18.85 | \$ (8.28) | \$ (7.64) | \$ (6.88) | \$ (6.06) | \$ (5.14) |
| | Total Bill | \$ 20.93 | \$ 21.91 | \$ 22.92 | \$ 23.98 | \$ 25.09 | | | | | |
| | Increase / (Decrease) | | | | | | | | | | |
| 30% | Medium-Low User | | | | | | \$ 9.05 | \$ 9.35 | \$ 9.70 | \$ 10.05 | \$ 10.40 |
| | 5,000 gallons water | \$ 9.05 | \$ 9.35 | \$ 9.70 | \$ 10.05 | \$ 10.40 | \$ 13.40 | \$ 15.14 | \$ 17.00 | \$ 18.99 | \$ 21.15 |
| | 4,000 gallons sewer | 15.50 | 16.30 | 17.10 | 17.95 | 18.85 | \$ 22.45 | \$ 24.49 | \$ 26.70 | \$ 29.04 | \$ 31.55 |
| | Total Bill | \$ 24.55 | \$ 25.65 | \$ 26.80 | \$ 28.00 | \$ 29.25 | \$ (2.10) | \$ (1.16) | \$ (0.10) | \$ 1.04 | \$ 2.30 |
| | Increase / (Decrease) | | | | | | | | | | |
| 50% | Medium User | | | | | | \$ 12.67 | \$ 13.09 | \$ 13.58 | \$ 14.07 | \$ 14.56 |
| | 7,000 gallons water | \$ 12.67 | \$ 13.09 | \$ 13.58 | \$ 14.07 | \$ 14.56 | \$ 16.49 | \$ 18.38 | \$ 20.39 | \$ 22.54 | \$ 24.87 |
| | 5,000 gallons sewer | 15.50 | 16.30 | 17.10 | 17.95 | 18.85 | \$ 29.52 | \$ 31.85 | \$ 34.36 | \$ 37.01 | \$ 39.84 |
| | Total Bill | \$ 28.17 | \$ 29.39 | \$ 30.68 | \$ 32.02 | \$ 33.41 | \$ 1.35 | \$ 2.46 | \$ 3.68 | \$ 4.99 | \$ 6.43 |
| | Increase / (Decrease) | | | | | | | | | | |
| 70% | Medium-High User | | | | | | \$ 16.55 | \$ 17.10 | \$ 17.73 | \$ 18.37 | \$ 19.01 |
| | 9,000 gallons water | \$ 16.55 | \$ 17.10 | \$ 17.73 | \$ 18.37 | \$ 19.01 | \$ 19.58 | \$ 21.62 | \$ 23.78 | \$ 26.09 | \$ 28.59 |
| | 6,000 gallons sewer | 18.60 | 19.56 | 20.52 | 21.54 | 22.62 | \$ 36.95 | \$ 39.59 | \$ 42.41 | \$ 45.38 | \$ 48.54 |
| | Total Bill | \$ 35.15 | \$ 36.66 | \$ 38.25 | \$ 39.91 | \$ 41.63 | \$ 1.80 | \$ 2.93 | \$ 4.16 | \$ 5.47 | \$ 6.91 |
| | Increase / (Decrease) | | | | | | | | | | |
| 85% | High User | | | | | | \$ 20.69 | \$ 21.38 | \$ 22.15 | \$ 22.95 | \$ 23.75 |
| | 11,000 gallons water | \$ 20.69 | \$ 21.38 | \$ 22.15 | \$ 22.95 | \$ 23.75 | \$ 25.76 | \$ 28.10 | \$ 30.56 | \$ 33.19 | \$ 36.03 |
| | 8,000 gallons sewer | 24.80 | 26.08 | 27.36 | 28.72 | 30.16 | \$ 47.47 | \$ 50.57 | \$ 53.85 | \$ 57.30 | \$ 60.96 |
| | Total Bill | \$ 45.49 | \$ 47.46 | \$ 49.51 | \$ 51.67 | \$ 53.91 | \$ 1.98 | \$ 3.11 | \$ 4.34 | \$ 5.63 | \$ 7.05 |
| | Increase / (Decrease) | | | | | | | | | | |

| | | Monthly Bill for Commercial Users | | | | | | | | | |
|---------------------|----------------------------|-----------------------------------|-----------|-----------|-----------|-----------|--------------------|------------|------------|------------|------------|
| Percentile of Users | Sample Business | Existing | | | | | Recommended Option | | | | |
| | | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 |
| 25% | Commercial - Low User | | | | | | \$ 13.71 | \$ 14.17 | \$ 14.70 | \$ 15.23 | \$ 15.76 |
| | 7,000 gallons water | \$ 13.71 | \$ 14.17 | \$ 14.70 | \$ 15.23 | \$ 15.76 | \$ 10.31 | \$ 11.90 | \$ 13.61 | \$ 15.44 | \$ 17.43 |
| | 3,000 gallons sewer | 46.50 | 48.90 | 51.30 | 53.85 | 56.55 | \$ 24.02 | \$ 26.07 | \$ 28.31 | \$ 30.67 | \$ 33.19 |
| | Total Bill | \$ 60.21 | \$ 63.07 | \$ 66.00 | \$ 69.08 | \$ 72.31 | \$ (36.19) | \$ (37.00) | \$ (37.69) | \$ (38.41) | \$ (39.12) |
| | Increase / (Decrease) | | | | | | | | | | |
| 50% | Commercial - Medium User | | | | | | \$ 44.55 | \$ 46.02 | \$ 47.53 | \$ 49.25 | \$ 50.97 |
| | 21,000 gallons water | \$ 44.55 | \$ 46.02 | \$ 47.53 | \$ 49.25 | \$ 50.97 | \$ 65.93 | \$ 70.22 | \$ 74.63 | \$ 79.34 | \$ 84.39 |
| | 21,000 gallons sewer | 65.10 | 68.46 | 71.82 | 75.39 | 79.17 | \$ 79.06 | \$ 81.97 | \$ 84.88 | \$ 87.80 | \$ 90.72 |
| | 35,000 gallons irrigation | 75.56 | 78.12 | 80.68 | 83.60 | 86.52 | \$ 189.54 | \$ 198.21 | \$ 207.04 | \$ 216.39 | \$ 226.08 |
| | Total Bill | \$ 185.21 | \$ 192.60 | \$ 200.03 | \$ 208.24 | \$ 216.66 | \$ 4.33 | \$ 5.61 | \$ 7.01 | \$ 8.15 | \$ 9.42 |
| | Increase / (Decrease) | | | | | | | | | | |
| 75% | Commercial - High User | | | | | | \$ 133.52 | \$ 138.04 | \$ 142.56 | \$ 147.72 | \$ 152.88 |
| | 63,000 gallons water | \$ 133.52 | \$ 138.04 | \$ 142.56 | \$ 147.72 | \$ 152.88 | \$ 195.71 | \$ 206.30 | \$ 217.01 | \$ 228.44 | \$ 240.63 |
| | 63,000 gallons sewer | 195.30 | 205.38 | 215.46 | 226.17 | 237.51 | \$ 376.96 | \$ 390.38 | \$ 403.81 | \$ 418.04 | \$ 432.28 |
| | 155,000 gallons irrigation | 370.26 | 382.93 | 395.61 | 409.84 | 424.08 | \$ 706.19 | \$ 734.72 | \$ 763.38 | \$ 794.20 | \$ 825.79 |
| | Total Bill | \$ 699.08 | \$ 726.35 | \$ 753.63 | \$ 783.73 | \$ 814.47 | \$ 7.11 | \$ 8.37 | \$ 9.75 | \$ 10.47 | \$ 11.32 |
| | Increase / (Decrease) | | | | | | | | | | |

Notes:
 Water Accounts – Adjusts first tier down from 8,333 to 6,000 gallons and adjusts rates for inner tiers.
 "Recommended Option" : Sewer Accounts – Incorporates a 5-year phase-in of the fixed monthly fee.

Appendix C

Conservation Rates Handout

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Conservation Rates

Minnesota Statutes, section 103G.291, was amended in 2008 to include a requirement for public water suppliers serving more than 1,000 people to adopt a water rate structure that encourages conservation:

Minnesota Statutes, section 103G.291, subd. 4. **Conservation rate structure required.** (a) For the purposes of this section, "conservation rate structure" means a rate structure that encourages conservation and may include increasing block rates, seasonal rates, time of use rates, individualized goal rates, or excess use rates. The rate structure must consider each residential unit as an individual user in multiple-family dwellings.

(b) To encourage conservation, a public water supplier serving more than 1,000 people in the metropolitan area, as defined in section 473.121, subdivision 2, shall use a conservation rate structure by January 1, 2010. All remaining public water suppliers serving more than 1,000 people shall use a conservation rate structure by January 1, 2013.

(c) A public water supplier without the proper measuring equipment to track the amount of water used by its users, as of the effective date of this act, is exempt from this subdivision and the conservation rate structure requirement under subdivision 3, paragraph (c).

In addition, *Minnesota Statutes*, section 103G.291, was further amended to read:

Subd. 3. **Water supply plans; demand reduction.** (c) Public water suppliers serving more than 1,000 people must employ water use demand reduction measures, including a conservation rate structure, as defined in subdivision 4, paragraph (a), unless exempted under subdivision 4, paragraph (c), before requesting approval from the commissioner of health under section 144.383, paragraph (a), to construct a public water supply well or requesting an increase in the authorized volume of appropriation. Demand reduction measures must include evaluation of conservation rate structures and a public education program that may include a toilet and showerhead retrofit program.

Public water suppliers serving more than 1,000 residents will need to adopt a conservation rate structure before requesting well construction approval for a public water supply well or before requesting an increase in permitted volume for their water appropriation permit.

Examples of Conservation Rates:

Below are examples of rate structures that encourage conservation. Many variations and combinations of these examples are possible.

NOTE: Rate structures often include a service charge (base rate) and a volume based charge. Service charges may cover fixed costs (capital improvements) and the volume charge is often for operation and maintenance costs. Volume charges usually use units of 1,000 gallons or 100 cubic feet (748 gallons).

Increasing Block Rates: Cost per unit increases as water use increases within specified "blocks" or volumes. The increase in cost between each block should be significant enough (25% or more and 50% between the last two steps) to encourage conservation.

Example: 0-6,000 gallons = \$2.50/1000 gallons.
 6,000-12,000 gallons = \$3.15/1000 gallons.
 12,000-24,000 gallons = \$4.00/1000 gallons.
 Above 24,000 gallons = \$6.00/1000 gallons.

Seasonal Rates: The rate per unit increases in the summer to encourage the efficient use of water during peak demand periods caused by outdoor water uses. Seasonal rates can take the form of a surcharge added to the normal rate or a separate fee schedule for winter and summer periods.

Example: Surcharge method - \$1.00/1000 gallons is added on top of the regular fee schedule for all water use between May 1 and October 1.

Time of Use Rates: Water rates are higher at times of the day when water use demands are high. This rate requires specialized meters that can monitor water use during specified segments of time, for instance, every 15 minutes.

Example: Water rates are reduced by \$0.75 for customers that agree not to use water for certain purposes or over a set volume of water during certain times of the day or periods of high water demands.

Individualized Goal Rate (Water Budget Rate): A rate with tailored allocations developed for each customer. The rates increase as the allocation is used or exceeded by the customer. The allocation is generally based upon winter or January use.

Example: A family of four used 6,200 gallons in January. Summer use is higher than January use so a factor is applied to determine a summer allocation (1.5 x 6,200 gallons = 9,300 gallons).

| | | |
|-----------------|------------------------|--------------------------------------------------|
| 0-6,000 gallons | = \$2.50/1000 gallons. | |
| 6,000 | 0-9,300 gallons | = \$2.75/1000 gallons. |
| 9,300-18,600 | gallons | = \$4.00/1000 gallons. (Allocation is exceeded.) |
| Above 18,600 | gallons | = \$6.00/1000 gallons. |

Excess Use Rates: Cost per unit increases greatly above an established level in order to trigger a strong price signal that discourages excessive use. This rate is similar to an increasing block rate but with much higher charges for the larger volume blocks.

Example:

| | | |
|-----------------|-----------------------|--------------------------------------------|
| 0-6,000 gallons | = \$2.50/1000 gallons | |
| 6,000-12,000 | gallons | = \$3.15/1000 gallons |
| 12,000-24,000 | gallons | = \$5.00/1000 gallons (Excessive Use Rate) |
| Above | 24,000 gallons | = \$7.50/1000 gallons (Excessive Use Rate) |

Multiple-Family Dwellings: Total water use in a multiple-family dwelling, which has only one water meter for the entire dwelling, may exceed that of a single-family dwelling. The statute does not require individual water meters for each residential unit within a multiple-family dwelling; however, the required conservation rate at which the multiple-family dwelling's water use is billed must consider the number of residential units within that multiple-family dwelling.

Example: A four-plex uses a total of 18,000 gallons per month or approximately 4,500 gallons per residential unit. Water use for each residential unit falls within the first block (0-6,000 gallons) of the above Excess Use Rate example. A rate of \$2.50/1000 gallons would apply up to a total use of 24,000 gallons for the multiple-family dwelling. Thereafter, the rate increases according to the rate schedule, always considering each residential unit as an individual user.

Non-conservation rate examples:

Declining (Decreasing) Block Rates: The cost per unit of water (cubic foot or gallon) decreases as the water use increases beyond the basic block. This rate structure provides no incentive to conserve because the cost of water per unit decreases with increased use.

Flat Rates: A set fee allows the use of an indefinite amount of water. This rate structure is used where water is unmetered and provides no incentive to conserve water because cost is unrelated to volume used.

Uniform Rates: The cost per unit is the same regardless of the volume used. This rate structure is considered conservation neutral.

Service Charge (Base Rate) that includes a Minimum Water Volume: The inclusion of a minimum volume of water in the service charge (base rate) discourages conservation especially if the minimum volume exceeds average customer usage.

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

Staff: John Gunyou, Geralyn Barone, Merrill King, Darin Nelson, Julie Wischnack, Mark Raquet, Brian Wagstrom, Dave Johnson, Joe Wallin, Kevin Fox, David Maeda

1. Boards and commissions interviews

Priscille Biehlmann, a junior at Hopkins High School, said she was born in Paris, France and moved to Minnetonka when she was five years old. She is considering a career in politics or communications. She is a member of the tennis and ski teams and has three sisters who she considers her best friends. Her older sister encouraged her to apply.

Schneider said Biehlmann's background, interests, and volunteer work spoke well of how engaged she has been. He noted her first choice was to serve on the community commission and asked what she thought she could contribute to the commission. Biehlmann said she was in touch with kids her age and she and her friends had ideas about potential activities that would get them more involved with the city.

Greves noted Biehlmann's application included the idea of the city creating a youth committee and said she could see that fitting in with the community commission's activities. She asked Biehlmann to expand on why she thought a youth committee was necessary. Biehlmann said a youth committee would create opportunities for more young people to get involved and share their perspectives. Greves asked if there were specific weaknesses Biehlmann and her friends saw. Biehlmann said one example was the recent Summerfest that had activities for younger children but not as many activities for young adults.

Allendorf said Biehlmann's application also indicated she was interested in serving on the park board. He asked if she used the city's parks. Biehlmann said she uses the parks all the time and her interest in serving on the park board was encouraged by her neighbor, Denny Lambert.

Wiersum asked what the city needed to do to reach out to Biehlmann's peers to make them aware of the opportunities that already exist in the city. Biehlmann said the best way to make kids aware would be to have city representatives come out to high schools to speak about the opportunities.

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Schneider noted that student representatives that serve on the park board and community commission are members equal to the other representatives and it was an intriguing idea to use social media like Facebook to get feedback from the youth in the community on ideas that would get them more engaged. Biehlmann agreed.

David Simon said his interest in public service began early in life due to the generosity of the community he grew up in that used government programs that helped provide some of the opportunities he has had in his life. He and his wife are expecting a baby boy soon and he hopes to be able to contribute in order to make sure the community continues to be the type of place that he wants his son to grow up in.

Hiller said he liked what Simon was doing with the Community Learning project. He noted one of the key roles of the community commission was the outreach to connect to other groups. Simon said his grandmother grew up in north Minneapolis and during his early days as a lawyer he spent time at the Phyllis Wheatley Community Center. The center was having difficulty getting legal aid to return voice messages. This led to a conversation about how the center could bring to bear resources from the public and private sectors and mobilize volunteers to fill the void and provide a safety net. Eventually a volunteer based, lawyer driven poverty law clinic that served anyone who walked through the door was established. He said he would like to serve on the community commission to reach out to similar communities in Minnetonka, and that those who live in multi-family housing complexes are feeling included.

Schneider said Simon's passion for the issues he has worked on include areas that the community commission would cover.

Simon said he spoke with his 97-year-old aunt who lives in the city about issues she is facing. The conversation included talk about the need to find ways to be involved in the city. He asked to what extent the council felt educational outreach to senior centers and multi-family housing complexes with seniors would draw interest. Schneider said he thought educational outreach would be helpful and the challenge the city faces is the increasing diversity that is so spread out making the connections difficult. The available matching resources are thin adding to the challenge. He said one of the things the community commission is charged with was if city staff cannot provide a necessary service, identifying who else in the community might be able to do it, and determining how those people could become engaged. He said the city has a lot of programs held in the

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community center but that requires people to come in and because of mobility issues in the city that sometimes makes things challenging.

Simon said one idea would be finding point people in the different neighborhoods to bring together to have a conversation about the issues.

Wiersum said it was clear Simon had a passion for a lot of the things that are relevant for the community commission. He said one of the issues the council has discussed is what kind of city Minnetonka really wants to be and the community commission has a huge role in helping to define that. He noted Simon is a relatively new resident and asked what he liked about the city and what he would like to see improved. Simon said he grew up in Moorhead. His family moved to Plymouth when he attended the University of Minnesota. He said talking with his neighbors, there are a lot of people who are now empty nesters and want to stay in the neighborhood but it is financially difficult. He noted light rail transit is one thing people support spending money for. One other issue he sees is the increasing number of people who feel invisible who need affordable housing and do not know they qualify for it. He said it was very important to him as a soon to be parent that diversity is part of his child's experience growing up in the city.

2. 2011 preliminary budget review

City Manager John Gunyou noted that a year and a half ago the city adopted a comprehensive approach for dealing with the budget, and that 2011 represented the second year of implementation. He said there were four principles that were followed: 1) Achieving permanent structural balance rather than using one time funds to patch together a budget from year to year. This was why staffing was permanently cut by six percent. He noted some cities like Bloomington are holding positions open rather than reorganizing or permanently eliminating the positions as did Minnetonka. 2) A priority was put on sustaining core services, like police, fire, streets and parks and recreation. 3) Investments would continue for infrastructure so that the city did not fall behind in maintenance, and have to pay more in the long-run. He said other cities were delaying capital purchases or borrowing to pay for those purchases, which also increases long-term costs. He noted that Plymouth and Eden Prairie use special assessments and are now borrowing for purchases to keep this years' tax rates low. 4) Moderate tax growth on a permanent basis, not just for this and next years' budgets.

Gunyou said the operating fund budget was very conservative as a result of the major restructuring and downsizing in recent years. Budget increases are typically most related to personnel costs, since these expenses are the major

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part of any city's operating budget. He noted that Minnetonka was able to renegotiate all their labor contracts - the only city that was able to do so. He credited this to the city's respectful relationship with their unions and the leadership of Assistant City Manager Geralyn Barone. Schneider said he has had at least six other cities ask how Minnetonka was able to renegotiate their labor agreements.

Gunyou noted concerns about what will happen with PERA, as the state will likely do something again with the statewide pension fund this year. Allendorf asked what the state could do. Gunyou said it was likely the state would increase the amount the employer is required to contribute, and also employee contributions. Wiersum asked if the city had a voice in what would be done. Barone indicated the city would continue to work through the League of Minnesota Cities, but ultimately it was the legislature who will decide. Gunyou noted the city had more say in what could be done with the fire relief pension, and that a collaborative effort was underway to address the long-term viability of the fund. Greves asked if the reality of the state of the pension funds was sinking in with employees. She said as the city negotiates labor contracts it was important for people to understand the situation. Gunyou said the tradeoff for public employees has traditionally been more long-term stability for less pay than private sector counterparts. He indicated any change would likely require some type of grandfathering provisions.

Gunyou said the recommendation for the preliminary levy was about one percent for the operating budget, and a similar percentage for the fire apparatus fund. The regular capital budget has been pared back, so the overall increase would be 2.9 percent. Allendorf asked what he should tell his counterparts in Eden Prairie and Plymouth who seem to have lower levies every year. Finance Director Merrill King said that over time Eden Prairie's tax levies have been similar to Minnetonka. She said Plymouth's levy has traditionally been lower because it has more debt and they use special assessments to pay for street improvements. She said Minnetonka is in a much more solid financial condition in terms of its ongoing sustainability. She noted Plymouth also does more cost allocation for its utility fund, which means they use higher utility rates to keep property taxes lower. Gunyou said Minnetonka could try to shift even more on to fees in order to keep property taxes lower, but there are limits to that approach. King said Plymouth also has a street lighting fee that brings in significant funds. In terms of services, Minnetonka has a much more extensive natural resources program, which reflects the city's unique environment and the high priority city residents place on these services.

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Wiersum said there are a lot of people out there hurting financially so he would like to see the city take as little from them as it can. He agreed that it was better to not special assess for street improvements because for a person struggling financially, getting a large special assessment bill would be much more difficult to deal with than an annual tax increase. He said for comparison purposes, he would like information showing how Minnetonka's budget would look if it did special assess for road improvements at a rate similar to other cities. Wiersum emphasized he was not recommending that Minnetonka begin to special assess for street improvements, he was just asking for the information to better understand how Minnetonka compares with other cities. Hiller said the real question was if the other cities were shifting more to the special assessments and fees. Gunyou said that other cities are really scaling back on their needed capital investments or borrowing more – both of which will cost residents more in the long-run. King added that Bloomington is using more of its fund balances to pay for capital, which of course, is not sustainable.

Allendorf noted a city could use its fund balances to pay for capital only if the fund balances are too high to begin with. He said that when he and Schneider first joined the council they pushed to lower the city's fund balances down to policy levels.

Gunyou explained the options for the Boulevard Gardens TIF district.

Allendorf said the HRA levy that staff was recommending to keep in place was a levy used in the past year to pay for a couple of studies. His experience with government was that once a tax was in place, it remained, even if there wasn't something specific to do with the tax revenue. Government can always find something to do with the money. He said the \$175,000 HRA levy was 0.7 percent of the city's tax base. The city could reduce the levy by 0.7 lowering the overall increase to 2.2 percent. He said if the city had something important to do with the HRA levy he could support it but right now there wasn't anything specific being proposed. Instead, what was being recommended was to work with the EDAC to determine how the money should be spent. Wagner said last year the council approved \$75,000 from the HRA levy to fund village center studies for the next four years. The other \$100,000 was for housing rehabilitation. Schneider said the concept of establishing the HRA levy was to replace the dwindling Livable Communities Act funding that was used to support WHALT. At some point that will be the only money available to keep the Livable Communities Act funded. Allendorf said the EIF could be used to pay for things that the HRA levy could be used for. He noted that the proposed \$300,000 increase to extend the TIF district also at this point did not have a specific proposed use.

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Greves asked if last year's \$100,000 portion of the HRA levy for housing rehabilitation had been disbursed yet. Community Development Director Julie Wischnack said staff was ready to roll out the program when the formation of the EDAC began to occur and discussion about the EIF also began to take place. As a result, the rollout was postponed. Greves asked when the funds would begin to flow out. Wischnack indicated that would occur as soon as the program is approved.

Wagner said he disagreed with some of Allendorf's statements for a couple of reasons. The council had made a policy decision to fund the village center studies. Also, the city's housing stock is stagnant and declining so it was important to have a rehabilitation program in place that would provide incentives for other funding to help attract younger families to the city. He said there was still an open question about what to do about the Boulevard Gardens TIF district. There is a concept that the TIF could be extended to help build tax credit affordability housing across the city. The council could also approve a partial decertification that could provide funds for redevelopment with affordable housing components in the Ridgedale or Opus areas. He said the council needed to take the next four months to determine the best thing to do with the TIF district. At this point he said he could support a 3.9 percent preliminary levy to keep options available, with the understanding that the final levy would be lower.

Schneider noted that the special legislation had a lot of strings attached. He asked what would happen if the city could not meet all the requirements and if the money would still be available for the other programs Wagner mentioned. Wagner indicated the money would not be available if the requirements were not met. The city has to give notice about what would be done with the pooling before the bonds are paid off. Gunyou said if the funds were collected and a project does not occur the money would be disbursed back to the taxing authorities – the city, county and school district.

Wiersum said raising the levy by \$300,000 to get a million dollars back sounded like a good deal but he has never been part of something where money has to be spent quickly and good spending decisions are made. He was not in support of levying the \$300,000. If there were a good idea that needed funding then the city would find the funding. Wagner said it was worth four months of discussion with some political risk to authorize the 3.9 percent increase now in order to study the pros and cons of doing something with the Boulevard Gardens TIF. The council still likely would approve a lower levy in December. This was a better option than approving a 2.9 percent preliminary levy and losing the opportunity to discuss what could be done with Boulevard Gardens.

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Wiersum said he was concerned about the financial state of the country and what was being done at the state level as well. The current level of government services is not sustainable. Government needs to start discussing what it can do without. If an idea is truly a great idea, the city could find a way to fund it without raising taxes further. Wagner said he shared Wiersum's concern but his own concern was correcting course too far and throwing away the planning that has already been done.

Greves said she would prefer to see how the housing rehab portion of the HRA levy worked before tackling something new.

Ellingson said Wagner's idea of setting the preliminary at 3.9 percent to study options was a good idea.

Schneider asked for more information about extending the Boulevard Gardens district and the affect upon pooling. Gunyou said a decision about the pooling had to be made in December before the final payment was made on the bonds. Schneider asked if the council could decertify the district at any point going forward. Gunyou indicated that was correct. Schneider stated that once the decision was made to not do the pooling, that decision could not be reversed. Gunyou indicated that was also correct. Schneider said his concern was losing an option that would be to the benefit of the community, and believed the pros and cons deserved more discussion.

Hiller said he had been generally supportive of funding the services the city provides. The city has been able to increase taxes to pay for the programs during good economic times but now it was time for the council to look at programs that the city was spending too much on and ask if the services were really needed. He said the 2.9 percent increase was too high and wouldn't be supported by the community so a more diligent effort to cut that back was needed. The council needed to look at what could be cut, such as cutting back on road improvements or parks. He said staff has done a good job at maintaining services but it was the council's responsibility to look at priorities. He said he was strongly supportive of getting additional funding to do the development planned in the comprehensive guide plan but in order to do that, other city services needed to be cut. He suggested the council should look at whether the city could cut back on road projects or senior services.

Greves said she would not support cutting into basic services to get the long-term economic development benefits. She noted the proposed 1.1 percent increase for the general operating services included a 10 percent increase in health insurance costs. Wagner asked if others were willing to forgo building up

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the fund balance for economic development with a 1 percent increase. He noted there was no similar TIF district in the city so it was a one-time opportunity and he was advocating leaving options open. Hiller said the city's history has been that the final levy was the same as the preliminary levy. Wiersum said Wagner was proposing leaving the most flexibility, but that option was also the least disciplined. He said now wasn't the time for a city council to appear undisciplined. If the \$300,000 was truly necessary the city would find it elsewhere instead of approving more than a 2.9 percent levy.

Allendorf said if the council approved the one percent increase to extend the TIF district and the district was then decertified because a project wasn't ready, there would not be a way to decrease the levy by one percent. He said there was nothing wrong with keeping options available, but he doubted that a project would come forward by December that would be worthwhile.

Gunyou said coming up with another \$300,000 in cuts from the operating budget after all the recent reductions would mean cutting things the council would likely not support. Either one time cuts or fee increases would need to be made, or newer programs would need to be eliminated to reach such a target. He emphasized that staff has not heard an outcry about taxes, and noted that those residents who do call believe the city has been pretty responsible when the budget restructuring is explained to them.

Schneider said everybody is becoming more conservative in spending habits and that is adding to the economic problems. He said the community survey asks residents if they think they are getting value for the services and 95 percent respond they are getting great value. Hiller said people are legitimately asking what was being cut and the council had to demonstrate to the community it was looking at cuts to services. Wiersum said there are indicators in the community that the economy is not good including increased need for ICA's services. Health care costs continue to go up and many people got no salary increases last year, so there are increasing pressures on people. People are even taking money out of their 401Ks to pay bills. He suggested adding a question to the community survey asking if people are making more, the same or less than last year.

Allendorf said he thought the 1.1 percent increase for basic services was tight and he supported that increase. He did not support cutting basic services as a tradeoff for the economic development programs.

Greves said she was trying to sort through the information to determine if the city had the tools it needed for economic development without extending the TIF district and still be able to achieve the city's goals. Gunyou said the answer was

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in the eye of the beholder. While fund options currently exist, the city has some significant issues to address in the future, such as Ridgedale redevelopment and affordable housing. Wagner said the council has made a fundamental change in wanting to be more proactive in development. Being proactive will require funding. Schneider said finding development funding that would provide some flexibility in how it could be spent was what was needed. Greves said the city was being proactive with all the engagement that was being done. Wiersum said he agreed that it was important to be proactive because it was not effective waiting for somebody to come forward with a proposal and then voting yes or no. He said the council needed to determine how much was needed to achieve its vision. The city can't just say it needs more without defining what that is.

Schneider called a recess at 9:12 p.m. He reconvened the meeting at 9:26 p.m.

Gunyou gave background on the Economic Investment Fund.

Schneider said the charter commission discussed the pros and cons of moving the money from the special assessment account that would now go into the community investment fund rather than the economic investment fund. He noted Marilyn Clinton, who served on the committee that set up the community investment fund, is on the charter commission and was able to provide some history. She indicated when the original fund was established it was set up to capture the money available through the sewer and water special assessments. After the community center was built, the intent was to capture revenues as an endowment fund. Schneider said Clinton was comfortable with language keeping the key principle balance of the CIF and allowing the new money to go into an economic investment fund. The charter commission also wanted to tighten up language in the charter that now exists in an ordinance. Schneider said the charter commission expressed concern that it was too prescriptive to set specific percentages for specific uses. He said the question was how the council would establish the key priorities and how the money would be spent and not just do things on a first come, first serve basis. He indicated energy efficiency would be at the bottom of his list of the priorities identified in the staff report.

Allendorf agreed he would also put energy efficiency at the bottom of the list. He said what is missing in the marketplace now was mezzanine or gap financing. He said he was having difficulty getting a handle on the priorities without a better understanding about what was available. Was the fund \$5 million with \$1 million available for spending? King said the initial transfer would be \$5 million with the loan needing to be paid back. Right now the amount of the loan is not known. Gunyou explained that as others develop, the newly generated fees would free up more of the \$5 million. King said initially there would be around \$1 million to

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\$2 million available, but over time there would be more available due to the arbitrage. Schneider said the challenge would be how to parcel the money out in an effective way so the city could manage it properly to get the most benefit at the right time.

Wagner agreed with Schneider and Allendorf that gap financing and short term land banking were more important priorities than energy efficiency due to the limited funds. Allendorf said not a lot could be done with \$1 million but it would provide another tool with which to be proactive. Wischnack said the money could be used for other leverage opportunities. Wiersum concurred and said he agreed gap financing and limited short term land banking were higher priorities than energy efficiency.

Hiller said the five year period was needed in part to cover any shortfalls in getting to the 100 percent. He said he was concerned with creating a long list with the lack of money that would actually be available, funding little projects along the way and not having enough when a big project comes up. Schneider said that was why it was important to have priorities in place. \$100,000 could go a long way in leveraging other funds to achieve something bigger. Gunyou said the key was to be strategic with the allocation of EIF funds, similar to the open space preservation process where limited funds were available but those funds were able to be spread out and leverage more preservation.

Schneider said one other important thing to be discussed was whether using grants or loans would be more effective. He said it was important that the funding be adaptable to provide the greatest opportunity. While it would be ideal to get all the money repaid via a loan, the situation might be where the city gets 50 percent back via a revolving loan that would provide a wide variety of options. Gunyou said establishing criteria for forgiveness of a loan was a good way to hold developers accountable in meeting project targets and goals.

3. Adjournment

The study session adjourned at 9:50 p.m.

Respectfully submitted,

David E. Maeda
City Clerk