

Pursuant to due call and notice thereof, a Council Budget Workshop of the North Mankato City Council was held in the Municipal Building Council Chambers on November 19, 2018. Mayor Dehen called the meeting to order at 6:00 p.m. The following were present for roll call: Mayor Dehen, Council Members Norland, Freyberg, Whitlock, and Steiener, City Administrator Harrenstein, Finance Director McCann, Community Development Director Fischer and City Clerk Van Genderen.

Discuss Proposed 2019-2029 Capital Improvement Plan

Finance Director McCann reviewed the proposed 2019 Budget. The City received an update from the County that reported a 9% increase in market value for \$102 million compared to what was previously reported as an 8% increase for \$89 million. Finance Director McCann noted all funds meet budget reserve policies as established by the City Council.

Finance Director McCann reported that there would be an overall increase in expenditures of \$992,000. He noted the actual spending increase is only \$652,000 or 3% with the net in transfers. The increases include a 2010C refunding payment of \$400,000. The refunding increase was due to a balloon payment the City established when the bond was refunded. Finance Director McCann noted a new category for Facilities Replacement had been established with a budget of \$250,000. Additional spending increases included a budget for the new street employee, an employee merit pool increase of 3%, increased budget for temporary laborers, Parks Plan budget increase, health insurance increase of 7%, swim facility operations increase and Pavement Management Plan increase.

Finance Director McCann reviewed the revenue highlights which included an increase in the utility fund of \$399,000. He noted there was a one-time transfer from the debt service fund that would be set up as an interfund loan and a repayment plan would be established.

Finance Director McCann reported the proposed total general property taxes in North Mankato for 2019 is \$6,934,509 with the General Fund receiving \$5,290,719, the Port Authority \$75,000, Debt Service Fund \$1,375,458 and the Abatement Levy \$193,332. Approximately \$645,758 in additional taxes is anticipated in 2019. He did note that the Tax Rate continues to decrease.

Finance Director McCann reported Council Member Freyberg had visited with City Administrator Harrenstein and him concerning the development of the budget and Council Member Freyberg would be presenting his ideas.

Council Member Freyberg reported he wanted to present a different way to look at the budget. He noted the General Fund revenue is proposed to increase by \$691,000 fueled by an 8% growth. He reported that the CAFR showed a population growth over the last five years of 2.6% showing that residential growth is slow. He stated the general levy increased by 50% in 10 years. Council Member Freyberg stated only new construction and annexation should be used in the growth calculation, not market value. He noted the local option sales tax and lodging tax are trending down. Council Member Freyberg reported a change in the demographics with the average age of the population increasing from 33.8 to 38.4 years. He stated the budget needs to reflect a modest increase by using only new construction for calculating tax rate and levy. By using only new construction, there would be a Market Value increase of \$15 million vs. \$102 million, a Tax Capacity increase of \$160,000 vs. \$1 million and a Tax Levy increase of \$178,000 vs. \$645,000. Using only new construction and annexations, the City would need to cut \$465,000 from the budget. He presented a redlined version of the expenditures which removed the Facilities Replacement Fund for \$250,000, removed the Parks Plan Budget increase of \$50,000 and removed the Pavement Management Plan increase of \$20,000 for a total of \$320,000 in decreased expenditures. He suggested that the purchase of the mower may not be necessary as it was an expensive piece of equipment and suggested privatizing the maintenance of the parks.

Council Member Freyberg also reviewed the overlapping debt which would include the Nicollet County and the School District. He noted the overlapping debt along with North Mankato's Direct Debt would amount to \$37,905,000 which is significantly higher than the legal debt margin of 3% for a total of \$29 million. To be clear legally the overlapping debt is not counted in the calculations for debt margin.

Council Member Freyberg reviewed the City's involvement with All Seasons Arena noting that while it is not listed in North Mankato's CAFR as an asset, it should be as the City owns 21.8%. He did note that the funds to support the Arena are noted in the expenditures.

Council Member Freyberg stated the practice of raising taxes curbs growth because people will move out of North Mankato to live where there is a lower tax rate. He stated since 2008 there has been 1.4% residential growth with 30% commercial growth and much of the commercial growth subsidized, so the balance of the taxes is falling on the residents.

Finance Director McCann noted that the City Council could determine how to manage the tax rate, but the rate is moving downward. The Council could create a budget philosophy that could lead to a budget manual. He noted there is an opportunity to set aside capital dollars to address projects that have been placed on the backburner. Council Member Freyberg noted that there is a "to be determined" (TBD) portion and the planned \$2 million bonding could be set aside for some of these other projects.

Mayor Dehen noted that North Mankato's commercial growth is 30% while Mankato's is larger allowing Mankato to keep their tax rates lower. He stated this is why North Mankato is working on increasing commercial. Council Member Freyberg noted that the City of North Mankato is a bedroom community. Mayor Dehen commented that this would not change unless the City took action to make those changes. Council Member Norland stated she was not interested in cutting the budget noting that the City needs to maintain its facilities. She also expressed concern over ravine maintenance. Council Member Steiner indicated he appreciated the information that Council Member Freyberg presented, but he supported the budget.

Mayor Dehen stated he appreciated a place in the middle and requested staff review what it would take to decrease another .5% to see what would happen. Mayor Dehen noted that there might be sacrifices to some amenities based on decreasing the tax rate. Council Member Whitlock agreed that it would not hurt to review a cut in the budget.

Finance Director McCann reported that decreasing the tax rate by .5% would place the rate at 51% and the City would need to cut \$67,000 from the budget. City Administrator Harrenstein stated if the City were to remove \$67,000 from the budget he recommended reducing the Facilities Replacement Fund by \$50,000 and cutting the increase to the pavement management plan which would save \$20,000.

Council Member Freyberg indicated it might be worthwhile to look at privatizing the mowing of the parks. City Administrator Harrenstein indicated he had been hesitant to pay for a \$90,000 mower but indicated the mower that would be replaced was an early 1980s mower that was used for both mowing and snow removal. He stated staff could review privatizing the mowing. He did note that maybe the City would change the system by which the mowers were sent out, maybe send them out on flatbeds and return at the end of the day. It was determined that City staff would decrease the tax rate to 51% and reduce the expenditures to reflect the \$67,000 decrease to the budget.

City Administrator Harrenstein reported that Council Member Freyberg has been a diligent Council Member and has helped shape the budget. He noted that the City recently was on a call with S&P Global to obtain a rating. The rating remains at AA, and this reflects the City's strong management and good financial policies, strong budgetary performance, very strong budgetary flexibility and strong liquidity along with the City's long history of good operation. City Administrator

Harrenstein stated the budget reflects the goals established by the Council. He noted the City is building cash balances for the replacement of vehicles, implementing the pavement management plan, the parks improvement plan, building and facility plan, while emphasizing solid cash management. City Administrator Harrenstein recognized the broader philosophical view of the budget presented by Council Member Freyberg. He stated there is a trend to decrease the tax rate. He indicated he does believe the City is growing and the less than rapid growth is a reflection of the clearing of the inventory. He reported that two new subdivisions are being built and the platting of areas in the Reserve and North Ridge. The Community Development Department is reporting \$41,000,000 in construction in 2018, the largest since 2013. He stated the determination of how much of the tax capacity to capture is an ongoing discussion.

Mayor Dehen closed the Council Workshop at 6:58 p.m.

Mayor

City Clerk