

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 September 4, 2018. Mayor Dehen called the meeting to order at 6:00 p.m. The following were present for roll call: Mayor Dehen, Council Members Whitlock, Steiner, Norland, Freyberg, City Administrator Harrenstein, Finance Director McCann, Public Works Director Host and City Clerk Van Genderen.

Discuss Proposed 2019 Budget

City Administrator Harrenstein addressed the Council noting the 2019 Budget is a collaborative document with direction from the Council, staff and the community. The community input can be seen through the plans and ideas that are used to guide the creation of the budget, including the Comprehensive Plan, Streets Management Plan, Sidewalk Management Plan, Brewing the Budget, and North Kato Ideas to name a few, all of which included community engagement. Administrator Harrenstein noted the first step in the budget process is to set the maximum tax levy. At the second Council Meeting in September the Council will formally set the maximum tax levy, which can be decreased but not raised when the final tax levy is set in December.

Finance Director McCann addressed the Council and reviewed the highlights of the presentation which would review the Property Tax Base and an overview of the proposed 2019 Budget emphasizing how everything aligns with the cities goals and review emerging issues.

Finance Director McCann began by reviewing the property tax base indicating an 8% increase in market value with 16% from new construction, 1% from annexations and the rest from property value increases. He indicated if the Council decreased the tax rate by .5% the City would still capture approximately \$600,000 in new taxes.

Finance Director McCann stated the budget shows an overall decrease in revenue of \$1.22 million, but the General Fund has an increase in revenue of \$691,000, and the Utility Fund showed an increase in revenue of \$399,000. A major change is in the Construction Fund Bond proceeds which has a decrease of \$2,670,000 because the City will only borrow approximately \$2 million compared to the \$4.6 million in 2018.

Finance Director McCann reported that there would be an overall increase in expenditures of \$992,000. City Administrator Harrenstein noted the actual spending increase is only \$652,000 or 3% with the net in transfers. The increases include a 2010C refunding payment increase of \$400,000. City Administrator Harrenstein noted the refunding increase was due to a balloon payment the City established when the bond was refunded. It was a strategic step at the time, and the City has been strategically planning for the increased payment. Finance Director McCann noted a new category for Facilities Replacement had been established with a budget of \$250,000. City Administrator Harrenstein stated the City's facilities are aging and staff recommends allocating funds toward the replacement of the aging facilities. 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.

Council Member Freyberg reported he reviewed both the proposed 2019 Budget and the CAFR and noted that while the City is growing it has a historical growth in the past decade of approximately 7% in residential. He noted that from the citizen standpoint the City's growth is coming out of their pockets, while there has been tremendous industrial/commercial growth the taxpayers have been paying for the growth because of the use of TIF Districts. He indicated he recognized the tax base was growing but with the majority from market value, and the residents pick up the balance until TIF Districts close. City Administrator Harrenstein indicated staff always requested the breakdown of where the tax base was coming from and recognize that 84% is coming from existing and 16% from

new construction. He indicated the 16% in new growth signals continued strong growth with 50-70 new housing units last year. City Administrator Harrenstein reported 57% percent of the tax base is from homesteaded properties with 30% industrial indicating the overall base is diversified. Council Member Freyberg reported a fixed population is supporting the commercial growth, and the County made a 20% shift back from agricultural to residential. Council Member Freyberg encouraged future leaders of the City to work with St. Peter and Nicollet County to help shape the taxation process and the allocation of those taxes. City Administrator Harrenstein reported the City is aware of residents on a fixed income and heard from that population during the automatic meter read surveys. He acknowledged the increased burden due to the property valuation and indicated that is why the City has chosen to actively dial down the tax rate to decrease the change to taxpayers.

Finance Director McCann stated all funds meet budget reserve policies as established by the Council. There are no new FTEs budgeted for 2019, but the budget includes the new street and police employees approved in the 2018 budget.

Finance Director McCann reviewed the budget process timeline and property tax base information. Reviewing that the proposed tax rate is 51.6% which is a decrease from 52.124%, while the tax rate is decreasing the additional value and growing tax base have raised the levy from \$6,288,751 to \$6,895,397. City Administrator Harrenstein reported the increase from 2018 to 2019 is \$606,646. The tax levy includes the General Fund Levy, Port Authority Levy, Debt Service Levy, and the Abatement Levy. Finance Director McCann reviewed how the City Tax has changed over the years on a few different properties, noting that the taxable market value continues to increase which increases the City taxes collected. A comparison of tax rates for the area and comparable cities places North Mankato with one of the lowest City tax rates.

Finance Director McCann reviewed the 2019 Personnel costs with 60.75 FTEs and an anticipated merit pool of 3% and a health insurance increase of 7%. An overview of revenues and expenditures included an increase in the Streets budget of 7%, this includes budgeting for the new FTE that was hired in 2018, continuing to increase funding to the Sidewalk Replacement and Pavement Management Plans to work on fully funding the plans the Council adopted. Staff increased expenditures in the Recycling Fund to manage the increased cost for Spring and Fall Cleanup. There was an increase in the Storm Water Fund for flood station updates and ravine maintenance. The Swim Facility has an anticipated increase of \$30,000 for increased lifeguards and utility expenses due to the facility improvements. A transfer will occur in 2019 to the Joint Economic Development Fund from the Port Authority General Fund for the final Rist payment, which will complete the City's contract for deed.

Finance Director McCann reviewed the 2019 Utility Fund Expenditures noting that debt in the Water Fund will be retired and the City will use the increased cash balance to pay for coming expenditures. City Administrator Harrenstein reviewed the 2019 Utility Fund Revenue noting there is a one-time transfer from the Debt Service Fund into the Storm Water Fund. In 2017 the City spent more than was in the Fund due to the need to fix the Eagle Ridge ravine, pumps for the lake improvement, and the settling of an old bill dispute. Administrator Harrenstein indicated Council could choose to make the transfer, write a journal entry noting why the transfer occurred and made the transfer permanent, or the City could make the transfer note, and the Storm Water Fund would repay the Debt Service Fund back over the term of the note. Council Member Freyberg indicated his preference to create a note to pay back the Debt Service Fund.

Administrator Harrenstein reported the City staff was proposing a \$1.00 recycling rate increase to offset the end of funds from Nicollet County at the end of 2019. The Riverbend Recycling Facility was built in 2005 in a partnership with Nicollet County with bonds that mature in 2025. Nicollet County has contributed approximately \$97,000 a year toward the facility, and the agreement ends in

2019. In forecasting the cash balance, staff estimates a \$1.00 rate increase starting in 2019 will cover the shortfall.

Finance Director McCann noted the proposed Budget reflects the priorities identified in the strategic initiatives including the Strategic Plan, Pavement and Sidewalk Maintenance Plans, Parks Plan, and the Comprehensive Plans. The City continues to manage debt proposing a debt issuance of \$2,000,000/year and possible sales tax-funded projects to maintain debt levy and cash reserves.

Finance Director McCann noted emerging issues including aging City facilities, ravine maintenance and aging recreational facilities including Caswell Park which is 30 years old.

Finance Director McCann reported additional workshops would occur in the next few months before adopting the levy and budget in December.

Mayor Dehen closed the Council Workshop at 6:57 p.m.

Mayor

City Clerk