

Pursuant to due call and notice thereof, a Council Workshop of the North Mankato City Council was held in the Municipal Building Council Chambers on August 19, 2013. Mayor Dehen called the meeting to order at 6 p.m. The following were present for the meeting: Mayor Dehen, Council Member Spears and Steiner, Administrator Harrenstein, Finance Director Thorne and City Clerk Gehrke.

Discussion of 2014 Budget

Administrator Harrenstein presented the 2014 General Budget overview reporting total government-wide spending decreased by \$3,289,355 or 16.0 percent, which is a result of the completion of the 14/41 interchange project at the end of 2013. He reported the General Fund spending decreased by \$157,774 as a result of one FTE not filled in the Park Department and reductions in transfers from the General Fund to other funds. The Administrator reported spending in the Water Fund is proposed to increase by \$325,000 funded through a rate increase that brings the cost per 1,000 gallons above 2,250 to \$4.35 from \$2.95. He reported this is the first water rate increase since 2008. The Administrator reported spending in the wastewater fund is proposed to increase by \$278,709 which is funded through a rate increase that brings the cost per 1,000 gallons above 2,250 to \$6.35 from \$3.45. This also is the first rate increase since 2008. He reported both rate increases stabilize the funds and reduce the need to borrow for small projects yet the rates remain one of the lowest in the region. He noted that if proposed water and wastewater plant upgrades in Mankato move forward, this will necessitate a greater rate increase.

Administrator Harrenstein reported the 2014 Budget reflects a proposed property tax levy of \$5,383,784 or a 0.00% increase from the 2013 levy. A resolution to adopt the proposed property tax levy will be presented at the September 3, 2013 Council meeting.

Administrator Harrenstein reported the 2014 Budget proposes to repay the previously reported \$3.1 million of interfund loans in 10 years compared to the 4-year option presented by the City's financial consultants. The repayment schedule for interfund loans represents sound fiscal policy that meets the expectation of rating agencies and presents to the governing body a reliable estimate for special assessment collection and allows any future tax increases to be targeted toward projects that advance the community's quality of life. He reported the 2014 Budget funds the completion of the City's first Comprehensive Plan and allocates other funding to join area partnerships previously withdrawn from by North Mankato. He stated this funding allows the governing body to determine how they want to interact with the region going forward.

Finance Director Thorne gave a PowerPoint presentation of the 2014 Budget outlining in greater detail the information presented by Administrator Harrenstein. She reported the proposed budget allows for the repayment of \$3.17 million of interfund loans, increases in water and sewer rates to stabilize the water and wastewater funds, an equipment replacement schedule shifting the purchase of equipment from debt to cash, and for future capital improvements. She reported that as part of the budget, City staff proposes an established property tax levy for debt service of approximately \$1.5 million in future years allowing the interfund loans to be repaid by making annual allocations from the debt service funds over a ten-year period from 2014 to 2023.

Discussion was held regarding deferred special assessments and the recording of such at the Nicollet County Recorder's Office.

Discussion was held regarding the Capital Improvement Plan and Administrator Harrenstein reported staff will present a Capital Improvement Plan for Council consideration following adoption of the 2014 Budget. He reported a proposed replacement plan for equipment is included in the proposed budget and this fund will eliminate the need to use equipment certificates to finance vehicle and heavy equipment purchases. He reported that any large infrastructure rehabilitation projects in the Capital Improvement Plan approved by the Council would require bonding and a levy increase.

Mayor Dehen stated that since Council Member Freyberg was unable to attend the meeting, he asked the following comments be read for the Budget Workshop:

"First, I must say that this is perhaps the best prepared budget that I have seen on both sides of the river. It addresses all of the "red flags" that the past three CAFR's have alluded to which were previously ignored. It also identifies a plan of action to restore the good faith and credit of the city of NM and should impress even the most doubtful at Moody's Investor Services. This budget is bold but does not inflict any harm on the existing staff, pays down general obligation bonding debt and eliminates the need to continue the irresponsible use of equipment certificates of which some were five year and longer GO Bonds funding three year assets. This is a practice that surely could not continue.

The budget responsibly addresses the concerns raised in the debt study and thankfully this study is used in the preparation of the budget and does not sit collecting dust on a shelf. We paid good money for the study and should therefore be used as a tool in the budget process ... which it was. Thank you.

The enterprise funds show an increase in user fees. This is good and long overdue and is necessary. The council last year directed Clara to do a water study and therefore, I am glad that this was used in part to develop enterprise funds that cash flow and are necessary to repay the questionable practice of borrowing from these funds when in the past we were never given a plan of how to repay them. This budget addresses all the enterprise fund concerns, sets us up with a plan to restore these reserves that will in part be used as debt service and again should be helpful in restoring the good credit of the city.

With regard to the sales tax fund: I believe that the cap of \$6 million dollars are committed and should not be planned on as a future source of revenue until such time there is a legislative effort to extend the dollar amount to be collected or the term of collection is changed. While the budget shows \$1,238,500 in this fund, we had proposed to pay back \$1,500,000 on the bonds paying for the county road 41 interchange and we have only spent \$194. At the same time we spent 178% more on Downtown Riverfront Development than what was proposed and 129% more on the library. So the unsettling thing to me, is that even though we proposed the use of this sales tax, we did not abide by that plan. This begs the question why? Therefore, our number one responsibility to our constituents is to restore that proposal and spend the tax dollars as directed. We should retire the debt on CSAH 41 as planned with no further projects funded out of the sales tax fund until such time legislation is revisited.

Of further interest and needs to be noted, is that the growing employee/city contributions to PERA, VEBA, Life, Health, Disability, Worker's Comp Insurances are highly inflationary to the city. We all need to be aware of this growing liability and should be prepared with a plan of how we will continue to pay for this escalation of a primary expenditure. Much of this could be viewed as an unfunded mandate. We should have a plan.

Lastly, the two resolutions with regard to a Reserve Fund Policy and an Interfund Loan Policy, I strongly support and will make that motion when appropriate. These absent policies have been advised for us to establish in the past three CAFR's that I am aware of and perhaps there were more. This only makes sense to do.

My congratulations to John and Clara for putting together a budget that is simple to read, well organized, well presented to each council member in advance and again while bold, it is a dose of reality and a framework that guides the city to a more prosperous future. Very well done. Thank you Clara and John and staff."

There being no further business, the Council workshop was adjourned at 6:50 p.m.

Mayor

City Clerk