

**Council Workshop Minutes  
June 13, 2011**

Mayor Larson called the workshop to order at 6:32 p.m.

Present: Larson, Bartholomay, Donnelly, May (arrived 7:25 p.m.), Fogarty (arrived 7:28 p.m.)

Also Present: Kevin Schorzman, City Engineer; Randy Distad, Parks and Recreation Director; Cynthia Muller, Executive Assistant

Mayor Larson added item 3c) Discuss City Administrator Interview Process. **MOTION** by Bartholomay, second by Donnelly to approve the agenda. **APIF, MOTION CARRIED.**

**Liquor Store Five Year Plan**

Parks and Recreation Director Distad stated Council needs to make a decision whether or not the City wants to stay in the liquor business. Mayor Larson felt the majority of Council does want to stay in the business. A five year lease has been approved for the Pilot Knob store. The lease for the downtown store comes due December 1, 2012. The City needs to determine if we want to lease or own a building for the downtown store. Mayor Larson stated if we do not own, he does not want to lease where we are and would prefer to own. Parks and Recreation Director Distad and City Engineer Schorzman did an analysis comparing tax revenue versus liquor store revenue, where we can go owning versus leasing space and how much money we can capture as profit versus spending on a lease. Staff had to lease the Pilot Knob location because of the lack of land availability in the northern portion of town and timing. One of the criteria for a site would be a location with 7,500 vehicles per day. This would be county roads such as hwy 50 and hwy 3. Other considerations are the type of intersection, parking, easy in and out, close in parking, and the proper zoning. Staff will continue the process and bring recommendations to Council in the next few months. Staff presented information showing the average income before transfers and depreciation is \$50,000. The new lease for the Pilot Knob store will save \$72,000/year. If sales remain the same, in 2012 there will be \$122,000 available from the liquor stores. Currently \$139,000 is transferred to the pool and the general fund. In order to cut expenses, part time wages have been reduced and there are fewer full time employees.

Staff presented information on owning versus leasing for the downtown store. To own, with a 15 year note, the City would pay approximately \$95,000/year to pay off a \$1 million loan. To lease we currently spend \$125,000/year for the downtown store. In addition, we pay a CAM amount of \$36,000. This covers the landlord's property tax and the overhead that comes with the shopping center. This is standard for any commercial lease. The total amount is \$161,000 to lease the downtown store. To own a space we would pay \$95,000. There would be a \$66,000 savings to own a building. For the current lease at Pilot Knob we pay \$130,000 plus \$61,000 for the CAM for a total of \$190,000/year. That is a difference of \$95,000 for owning versus leasing. The future lease (recently approved) is \$76,000 plus a CAM amount of \$42,000 for a total of \$118,000. This is a \$72,000/year savings from the previous lease. Staff and other tenants have tried to re-negotiate a lease with the landlord of the downtown store and he will not negotiate.

The municipal liquor stores provide an annual income of \$122,000 for use in lieu of a tax levy. As a comparison if it were a private business, staff reviewed City taxes in other cities for comparable businesses. The tax revenue is not close to the amount received in liquor revenues. Councilmember Bartholomay asked for a fact sheet explaining tax revenue versus liquor store revenue to educate residents. Staff will bring Council options on owning versus leasing.

### **Engineering Items**

This portion is intended to determine funding for seal coating. There is \$400,000 needed to cover seal coating. City Engineer Schorzman asked if Council wants to levy for it. The second item is to review the CIP and the effect of moving projects from year to year. Council discussed seal coating and whether to use franchise fees or levy for it.

*(Councilmember May arrived at 7:25 p.m.)*

Mayor Larson stated we need to seal coat. City Engineer Schorzman stated research is being conducted with seal coating at Mn DOT and attributing some of the failures area wide in the streets to seal coating. This has led to some cities no longer doing seal coating. Staff feels this is a huge mistake. There are pavements with a lot of air void in them. When you seal coat over the top, the moisture from the bottom goes up but it does not have a way to get out. It sits at the top and deteriorates the surface. This is where you get pot holes from. Applying this theory to every street is reactionary. The age of the streets runs about 25 years. It has much more to do with the mix design of the roads at that time. The areas that are failing have this high air void content.

*(Councilmember Fogarty arrived at 7:28 p.m.)*

City Engineer Schorzman would not recommend seal coating roads that are falling apart, but he would not stop seal coating the rest of the roads. Roads such as Akin Park Estates would be taken out of the seal coat program and placed in the CIP. He recommended the City stay with the current plan of seal coating every seven years. CIP costs are covered by the total annual fixed revenue whether it is \$500,000, \$600,000 or \$750,000 as discussed in a previous workshop. The fixed revenue would cover rehabilitation costs over time. The fixed revenue is \$600,000 from the levy in addition to the \$400,000 for seal coating. The money would stay in a fund for CIP and seal coating projects. Council and staff reviewed the various CIP projects and examples of various fixed revenue amounts.

Councilmember Fogarty asked if we want to take a big hit one year or small bites for four years. Staff reminded Council that in the seal coat program, half the amount would have come from assessments. So there is really a \$200,000 increase rather than \$400,000. Council agreed we need to seal coat and trust staff's judgment. City Engineer Schorzman suggested doing small repairs on 2<sup>nd</sup> Street to make it last until 2015. Councilmember Bartholomay asked if it would help to do franchise fees for a couple years and then levy. Staff stated if you are going to implement franchise fees that should stay in place until we can have a street levy. Councilmember Fogarty was concerned we will not do seal coating if we don't have franchise fees. Councilmember Donnelly thought Council was leaning more towards a levy. Staff explained when it was discussed to add it to the levy, that was prior to budget discussions and the

amount of other items we need to cover. Councilmembers noted we will have the same concerns brought up again with franchise fees. Staff explained the fixed revenue number of \$600,000 would come from a levy and does not include seal coating. We also need a \$400,000 franchise fee to cover seal coating. Councilmembers stated the previous discussion about franchise fees was who doesn't pay. The issue was that the money goes to the utility company and then to the City. It is more transparent if it is a levy. We cannot have a line on the tax statement that says street utility fund. When it goes into the general fund, Council can say \$600,000 every year is to go into this fund from the general levy. The next Council can use it for something else. There will not be levy limits for 2012. If Council is worried about levy limits then we should raise it to \$1 million and fund it through the general fund. It gives us an option later to do franchise fees. We still have to cut in some areas, and Council would like everyone to look for savings. City Engineer Schorzman showed the savings of moving away from Bonestroo for engineering. In 2005 the City paid Bonestroo \$1,498,000. So far in 2011 that has been reduced to \$48,880.

Councilmember May stated we have a number between \$400,000 - \$600,000 in the CIP. Looking at the seal coating number, does it have to be \$400,000? Staff showed there would be increased deficits. If Council wants that staff would recommend explaining to residents it is a long term plan and they may have to deal with road issues for a couple years. Councilmember May asked staff to look at the seal coat number to see if it has to be \$400,000. City Engineer Schorzman showed the costs we actually paid and the associated increase or decrease each year. A 5% increase does not come close to matching this. The various seal coat options are all close to \$300,000. Councilmember May asked if we could put it just under \$400,000. Staff would be comfortable with starting lower if it was through a levy. If it is through franchise fees we need to set them and be done. Councilmember May would vote for a levy around \$350,000. Staff felt that would come close if seal coating is done next year. If Council wants to start lower, it should be through a levy. Mayor Larson agreed with a levy until we can do a street utility fee. Councilmember Bartholomay also agreed with a levy. City Engineer Schorzman stated for \$400,000 it would be \$4.40/month or \$132/household/year. Councilmember Fogarty would rather do a large increase in one year and be done.

Councilmember May stated all departments have presented their budgets so she would like to see their requests be put into a budget worksheet. Interim City Administrator Schorzman stated all the things Council thought were a good idea, staff will put in a list for Council to prioritize. Councilmember May noted there was a budget summary in addition to the full budget book. She would like to see the items put in that. Each department should have a recap page of the things they have added and removed to match those numbers. Staff stated everyone agreed we cannot do all the good ideas. He suggested a summary showing a 2011 budget number showing what has been done to reduce costs going into 2012 and a list of the ideas. He asked if it had to be by department. Councilmember May wanted a budget summary with everything combined, but also what each department has done. Councilmember Fogarty wanted a list with a recap that Council can prioritize. Councilmember May wanted that list but also to see what the numbers look like. There have been reductions and she would like to see where we are at.

**City Administrator Interview Schedule**

Mayor Larson asked if Council wanted to keep the original schedule or extend it to allow more time. He wants full Council at the interviews. After discussion, Council agreed on the following:

June 24 interview all six candidates with the advisory panel starting at 9:00 a.m. and Council starting at 10:00 a.m.

June 27 hold the meet and greet with all six candidates, open to the public, in the City Hall expansion area from 4:00 – 6:00 p.m.

June 29 Council holds a special meeting at 3:30 to select the finalists. Council would have the written panel report and meet and greet comments for this meeting.

June 30 staff will notify the finalists.

July 11, 1:00 p.m. Council conducts second interviews.

5:00 p.m. Special Council meeting to move the final candidate forward to background checks.

Council agreed to cancel the regular July 5, Council meeting and hold a Council retreat on July 5, at 3:30 p.m. at City Hall to discuss the budget.

**MOTION** by May, second by Bartholomay to adjourn at 9:15 p.m. **APIF, MOTION CARRIED.**

Respectfully submitted,

Cynthia Muller  
Executive Assistant