

**Council Budget Workshop  
Minutes  
July 27, 2011**

Mayor Larson called the workshop to order at 3:30 p.m.

Present: Larson, Bartholomay, Donnelly, Fogarty

Absent: May

Also Present: Kevin Schorzman, Interim City Administrator; David McKnight; Teresa Walters, Finance Director; Cynthia Muller, Executive Assistant

The purpose of this workshop was to discuss the 2012 budget and answer Council's questions from the July 5, 2011, retreat. Mayor Larson noted additional staffing includes 1 full-time or 2 part-time administrative staff positions. Council wanted to discuss this with the new City Administrator. Interim Administrator Schorzman recommended including this in the preliminary levy as that can be reduced later.

On July 5, Council asked for a plan to provide funding to eliminate the pool and Rambling River Center deficit. Staff agreed with developing a plan, but suggested waiting to see about increased revenue from the liquor stores. There will be \$70,000 in lease savings applied to the liquor store fund balance. Councilmember Fogarty agreed with using the savings to pay off the deficit, but once the deficit is paid, she wants to see putting that into the parks fund, upgrade the pool and have a plan for that. Perhaps a plan would be to use \$30,000 to pay off the deficit and put the rest into a parks fund. Finance Director Walters noted in 2011 we did not transfer as much to the pool. In 2012, we will have to increase the transfer to the pool, because the pool is now using the fund balance to operate. Councilmember Donnelly stated Lakeville puts their liquor profits into the general fund. We are going to keep the pool and the ice arena open. The debt payment for the arena is coming from the general fund. Why set up these funds for the pool and the arena? Why not say we are keeping the pool and the arena open, we will make as much money as possible from the liquor store, and we do not have deficits in these funds. Councilmember Fogarty felt it was because people demand transparency. Councilmember Donnelly would like to see it done differently. Finance Director Walters stated we have talked about putting the pool and the Rambling River Center into the general fund so the general fund tax levy covers the operations as well as charges for services. If there are any deficits, it is absorbed by the general fund. They would have a budget like anyone else. Councilmember Donnelly would like to not have the separate funds for the pool, arena, and Rambling River Center and put them into the general fund. Finance Director Walters stated if it is supporting itself, there is a reason to have it separate. If it is not supporting itself, then Councilmember Donnelly is right, it is transferring here and there. Councilmember Donnelly also had issues with the transferring. The purpose of the liquor store is to provide funds for the City. Councilmember Donnelly would like to see some rationale as to why we can or cannot do this. Finance Director Walters stated we can do this, however, those deficits need to be absorbed somewhere. We cannot wipe out those funds without a transfer to cover it. We have a negative balance, so to wipe it out, we need to have something to cover it. If we move everything to the general fund, we can utilize the fund balance

in the general fund, but we already know our fund balance is low. Councilmember Donnelly stated we already took money from the fund balance to pay the \$155,000. Finance Director Walters stated but now it owes it back. Interim Administrator Schorzman explained when you agree to a transfer you are giving the fund a free pass. Finance Director Walters stated the bills were paid by general fund revenue, so the money is owed to the general fund. If you move the Rambling River Center into the general fund as a department, it will increase the fund balance of the Rambling River Center in order to bring it to zero. It will decrease the general fund balance so it will net to zero. Councilmember Fogarty did not object to simplifying the funds, unless there is a disadvantage to the City in having a lower fund balance than we already have. Finance Director Walters stated the fund balance is low at 26% and the State Auditor recommends 35%. We will be quite a bit lower if we utilize the general fund for all the deficits. It is possible it could affect the bond rating, unless we can show we have money in other areas and also if we have a plan in place. Councilmember Fogarty stated philosophically we have options to keep separate funds and have the fund balance appear higher or do you tax people to raise your fund balance. Mayor Larson stated right now we are looking at a \$155,000 deficit in the pool and the Rambling River Center and need a plan for that. Councilmember Fogarty would like to see a five year plan putting \$31,000 from the liquor store lease savings towards that deficit and that includes dissolving these funds into the general fund.

Regarding the fuel station and salt storage, Council had asked about discussions with Marshall Lines. Interim Administrator Schorzman stated staff did contact Marshall Lines and their initial comment was this was discussed when they were building it and they asked if the City wanted to participate and were told no. They are researching options. Staff suggested discussing this next year as it is not a huge need for this year.

Next Council discussed funding for maintenance and replacement of equipment and infrastructure. Councilmember Fogarty felt Council agreed we need to move forward with seal coating. She felt we need to do \$400,000 in franchise fees for street rehabilitation and put \$350,000 in the levy for seal coating. People have to have gas and electricity, but they also have to have roads. If we dedicate that to street rehabilitation we can do a resolution. Mayor Larson stated he will not vote for a franchise fee unless we can do it inhouse. Councilmember Bartholomay mentioned including a sunset provision. Councilmember Fogarty agreed with having a sunset provision until we can have a street utility fee. Councilmember Donnelly stated the franchise fee is another tax with pro's and con's. At first he agreed with them because it spreads it out over a larger group. He would go with one of the increases, but both in one year is a big chunk. We have to decide what we want to do and then if we want to levy for it or do franchise fees. Mayor Larson stated the \$400,000 franchise fee was \$4.40/month/household. Interim Administrator Schorzman felt everything on the list is important because it represents planning that has not been done up to this point. If Council is not comfortable with doing all of it in one year, he recommended leaving the street rehabilitation for next year. A \$120/year impact is \$10/month or \$2.50/week. Finance Director Walters stated 30% of our levy is bonds. Every time we need something, we bond for it. When you have plans in place, you build up funds so when you need something you have the money available. Then you do not need equipment certificates and do not pay interest on bonds. That is a savings. Interim Administrator Schorzman stated the Walnut Street project was \$2.4 million. This would be the same as doing the street rehabilitation fund for four years. If you do \$2.4 million worth of work

and pay for it as you go, you have spent \$2.4 million. On the Walnut Street project, we bonded for \$2.4 million and over the next 15 years we will pay over \$800,000 in interest on that \$2.4 million. Mayor Larson agreed with the plan, but it is so much in one year. Councilmember Fogarty felt it was better to do it all this year than to split it.

The next item was \$162,000 to create an equipment replacement fund. This number includes squad cars. Interim Schorzman stated the \$162,000 is the equipment certificate that is going away. He believed staff can work on a reasonable plan for \$162,000. When the street rehabilitation spreadsheet was discussed at the Engineering workshop, levying funds was not the only source of income. It is the same with this. There are still some large purchases where we will need equipment certificates. Finance Director Walters stated as the notes mature, we can look at putting a portion towards equipment replacement or a small amount of the levy. At some point you have a long term plan and you can see every year what you will be replacing and how much is going into the fund balance. Councilmember Fogarty would like to see \$150,000 rather than \$162,000.

Mayor Larson asked if street rehabilitation should be at \$600,000 or \$400,000. Councilmember Fogarty suggested \$400,000. Staff will put together a plan for \$400,000 and include \$350,000 for seal coating.

Interim Administrator Schorzman noted the remaining items on the list are less than \$100,000, but are important things we have not had in the past such as building maintenance. Including all items in the budget sets a preliminary levy at \$1,340,563 which is a \$163.80 tax increase/year. Councilmember Bartholomay stated we will need some things to go along with this such as strong marketing. Councilmember Fogarty suggested putting this out and see what the reaction is. Councilmember Bartholomay noted we can always decrease it. Interim Administrator Schorzman stated street rehabilitation and seal coating are two big items. He would rather deal with one of them in the future than put both of them in the budget and wipe out the smaller items. Interim Administrator Schorzman stated for the residents we are trying to eliminate some of the money that has been taken out of their pockets to pay interest and putting it to use rather than sending it to someone who had the foresight to save money because we didn't. Councilmember Bartholomay suggested putting some type of explanation in the utility bills. Interim Administrator Schorzman stated we need to show residents the plan. Mayor Larson was concerned residents cannot afford this. Councilmember Bartholomay stated if we don't do this, we have to show them they will be paying a lot more. This would make the budget \$10.5 million. Council agreed to set this as the preliminary levy.

Mayor Larson had some comments from Councilmember May. She wanted Council to discuss cutting the recreation department and she wants to see more cuts from staff. She felt the Rambling River Center is not holding up their end with membership being down. Interim Administrator Schorzman stated regarding the Rambling River Center, staff has discussed this and we need to develop a plan to get it closer to breaking even as far as operations. Councilmember Fogarty mentioned she has brought this up before and wants to see a five year plan for them to make things even. She was not in favor of eliminating the recreation department. Mayor Larson stated many kids are raised in those programs. Councilmember May was concerned some of the programs are not paying for themselves. As far as more cuts from

staff, Councilmember Fogarty wants staff to look for more creative cuts as they have been. Councilmember Bartholomay wanted staff to look for ways to save with software. Interim Administrator Schorzman stated no one is offended by being reminded of these suggestions. Over the last year, staff has really done a good job at finding things and will continue to do so. Councilmember Bartholomay asked for a spreadsheet showing all the programs and whether or not they are covering expenses. Interim Administrator Schorzman stated if enough people are not signed up or if it is not cost effective, the program is cancelled.

Finance Director Walters stated the amount budgeted for interest will be lower and we may need to make a budget adjustment. We will be lucky if we get half of what we budgeted. This will set us back \$100,000. Either we make a budget adjustment or we allocate to the general fund first and not to the other funds until the general fund receives its money.

Councilmember Bartholomay asked if the school liaison officer is included in the 2012 budget. He felt we need to have a serious conversation about that. Interim Administrator Schorzman stated that will be discussed at the next meeting with the school. Councilmember Fogarty stated the school wanted the officer for the 2011-2012 school year, so we would keep him on until then. Councilmember Fogarty stated we would only see three months worth of savings.

Councilmember Bartholomay asked about salary increases included in the 3%. He did not recall discussing that with each department. Finance Director Walters stated what is included is not salary increases, they are step increases. Interim Administrator Schorzman stated as far as the Fire Department, there are people changing their ranking and we have to keep in mind the number of members. Councilmember Bartholomay asked about the municipal services part of City Hall being increased by \$3800. Staff explained we have to pay for water and sewer for our buildings. We were not budgeting enough in the past to cover the expenses. Councilmember Bartholomay stated we had a savings of \$24,000 from the cleaning contract and it has been eaten up by other items. Staff stated the major item is elections. Councilmember Bartholomay asked about the expense for the Farmers' Market. Finance Director Walters stated the Farmers' Market will now be in Community Development rather than under the EDA. The revenue received will cover it. Councilmember Bartholomay stated it is tough to look at, but he would like to see the Police Chief look very closely at his department for cuts. We need to see some things from there. Councilmember Fogarty recalled the canine unit was not to cost us anything and now it shows an increase of \$500. Interim Administrator Schorzman stated he is covering his costs in case we do not get the expected donations. Councilmember Bartholomay had mentioned this at the workshop, and it would be nice to have the Police Chief come to a Council meeting quarterly to show some numbers as to how residents' money is being used. Councilmembers liked that idea. Staff will verify if the \$2900 for turnout gear for the Fire Department is needed. Councilmember Bartholomay noted the fuel for the street department is going down by \$2,000 and fuel for patrol services is going up by \$5,000. Staff noted we were looking at historical expenditures so that may be the reason for increases and decreases. Councilmember Bartholomay asked about the cleaning of uniforms and if they can be brought home to be washed and use Cintas once a month. Councilmember Fogarty stated in some cases, the uniforms should not be washed at home because of contamination and chemicals. Staff will look at that, but cannot promise any changes. Councilmember Bartholomay asked about the \$11,000 increase in park maintenance for cleaning. Staff explained that is the total cleaning for the Maintenance

Facility, and it will be split out between the enterprise funds. Councilmember Bartholomay suggested doing an RFP for legal services and do we need to use the same company for legal services and prosecution.

This preliminary levy will be brought to the August 15, Council meeting.

License Center – Mayor Larson was in favor of opening the license center. We will not be able to provide drivers licenses. Residents can get tabs, plates, registrations, title transfers. Interim Administrator Schorzman noted we need to appoint a Deputy Registrar. Councilmember Bartholomay suggested putting City Administrator David McKnight on the application as Deputy Registrar. Staff recommended bringing the application to the August 15, Council meeting with David McKnight as Deputy Registrar and Randy Distad as Office Manager. Councilmembers agreed. Councilmember Donnelly asked what assurances we have the State will approve this. Councilmember Bartholomay stated we will have staff listed on the application rather than Quick-Serv. Interim Administrator Schorzman stated by doing this we have resolved the reasons it was denied last time. Councilmember Donnelly did not want it to come back like last time.

**MOTION** by Fogarty, second by Bartholomay to adjourn at 5:10 p.m. **APIF, MOTION CARRIED.**

Respectfully submitted,

Cynthia Muller  
Executive Assistant