

MINUTES OF A WORK SESSION OF THE
INDEPENDENCE CITY COUNCIL
WEDNESDAY, AUGUST 3, 2016 –7:00 A.M.

1. CALL TO ORDER.

Pursuant to due call and notice thereof, a work session of the Independence City Council was called to order by Mayor Johnson at 7:00 a.m.

2. PLEDGE OF ALLEGIANCE.

Postponed until regular meeting.

3. ROLL CALL

PRESENT: Mayor Johnson, Councilors Spencer, Betts and Grotting

ABSENT: McCoy

STAFF: City Administrator Kaltsas, Administrative Assistant Beth Horner

VISITORS: ABDO Steve McDonald, LuAnn Brenno, Lynda Franklin

3. **RESOLUTION 16-0803-01:** Denying the application for a text amendment to allow Community Solar Gardens as a conditional use permit in the AG-Agriculture zoning district.

Motion by Spencer, second by Betts to approve Resolution 16-0803-01. Ayes: Johnson, Betts, Spencer and Grotting. Nays: None. Absent: McCoy. MOTION DECLARED CARRIED.

4. **REQUEST TO RELEASE PROPERTY FROM COVENANCE:**

Kaltsas said an attorney had contacted the City regarding a property at 6140 Woodhill Lane and requested that the property be released from its covenant. He noted there is a Declaration of Covenant and it cannot be released.

Motion by Grotting, second by Spencer to close the special meeting. Ayes: Johnson, Betts, Spencer and Grotting. Nays: None. Absent: McCoy. MOTION DECLARED CARRIED.

5. **2017 Budget**

- a. Long Range Capital Plan
- b. Initial Budget Assumptions /Discussion Points
- c. Draft Budget

Kaltsas said City staff has been working on the 2017 Budget. Abdo, Eick & Meyers has prepared a preliminary budget to initiate the budget development process. In the initial draft, staff has used “placeholder” budget increases based on historical knowns as well as any early information obtained from various entities (i.e. insurance premiums, fire and police initial budget information). The actual budget and any proposed increases or decreases will be fully vetted over the next several months. The City has tried to identify any special projects or initiatives (i.e. comprehensive plan) that will need to be considered in the 2017

budget. Based on the preliminary estimated tax capacity, the City will realize increased revenues from 2016.

In preparation for the 2017 budget, staff is currently working on a comprehensive public works road and equipment capital improvement plan, a City Hall capital improvement plan and a sanitary sewer capital improvement plan. It is anticipated that this information will be presented at the upcoming budget workshop. It is anticipated that the City will have additional budget specific workshops in August and September (as needed) to develop the 2017 budget. The City has until September 30, 2016 to adopt a maximum tax levy.

Kaltsas said some of the key 2017 budget considerations are as follows:

1. General 3% inflation increase built into budget.
2. Using WHPS draft budget proposal as a placeholder which reflects an approximate \$115,000 increase over 2016. This budget has not been approved by the Police Commission and will likely change prior to final adoption.
3. Moved portion of building inspector salary out of sewer budget to reflect actual time allocation.
4. Increase budget to reflect true recycling costs incurred.
5. Included \$15,000 in 2017 budget for 2040 Comprehensive Plan preparation. It is anticipated that the City would complete this process over two years and therefore pay for the plan over two years (must submit plan to Metropolitan Council by end of 2018).
6. Budget as proposed does not fully fund capital/long range plans for equipment and City Hall upgrades.
7. City will be transferring approximately \$92,000 from overlay project to Public Works capital fund in 2016.
8. City will be receiving approximately \$40,000 for Beacon Academy conduit financing in 2016. This funding could be utilized to fund capital expenditures.

Johnson noted that we are one of the few cities that will not get money from Met Council. Kaltsas said our tax capacity is too high so that is the reason. Johnson said if the City ends up hosting the National League of Small Cities meeting in 2018, funds would need to be earmarked for that event.

McDonald said Kaltsas hit all the major points. He said there would be a 9% increase in the general fund. McDonald said the preliminary levy has to be certified by September 30th. He said the Building Inspectors salary was reallocated from the sewer to the general fund. Recycling expenses increased by 20k. Kaltsas noted clean-up day remained fairly neutral. Spencer noted recycling commodities are down. He said it may make sense to go back to a flat rate on recycling.

Betts asked if the increase in the general fund towards City Hall was to replace the carpeting. Kaltsas said they went through the budget to true line items and last year they were short on capital.

Spencer asked about the increase in the financial administration, up 29k. McDonald noted the biggest factor there is the comp plan.

McDonald said the overall tax capacity increase for the City of Independence is 5.61%. He said a comparison was run with three neighboring cities which included Greenfield, Dayton and Corcoran. Kroells commented that Greenfield has no police, Dayton has only 6 officers and Corcoran has 7 so that is a big difference when comparing budgets. Spencer said we should be comped out against Minnetrista and Medina for a better picture.

McDonald noted there was no change in staffing. Revenue was up 8.07% and taxes represent the biggest increase in the general fund.

Johnson asked about the Public Safety portion of the budget. Kroells said 78% is for staff. He said it is a young, new staff and they are still in the step increase years as well as cost of living. He said with step increases and health insurance increases the department has a 75k increase. Spencer said 7.2% per year since the increase to 10 officers is not going to be sustainable year after year. He said the community is not growing fast enough to keep up with these numbers. Kroells said he hears and understands the budget restraints but also wants it noted that no one wants to do the police job. He said officers will leave and go other places. Kroells said one is leaving for Eden Prairie and noted they are the highest paying police department in the state.

Kaltsas asked if there was any feedback from the Council on the rate or percentage increase numbers. He said McCoy provided feedback prior that he would like to see the rate remain flat and if that is not possible at least keep it under 40. Johnson asked about meeting with the Maple Plain Fire Department as there is nothing on his schedule yet for that. Spencer said he is with McCoy and would like to stay under 40. He said the Lake Sarah Pioneer Creek Watershed provided their budget and it is not 3%. McDonald noted the big dollar ticket items are known. He said there are 10-15 items subject to 3%. Kaltsas said the conduit funding is a nice chunk that can be tagged into the capital reserve.

Spencer said the fund balance is not at 50 where it needs to be. McDonald said this is the by-product from 2007-2011 where they kept making cuts and left the City with no cushion. McDonald noted that for future repair/ replacement on streets using tax levies for bonds the amount will be around 100-120k per year. Kaltsas noted that by structuring the debt sooner they can plan for 5-10 years on roads maintenance and know costs long term. McDonald said there will be 115k falling off in 2021 from the levy and that will free up capital.

Spencer said money needs to go towards fixing up the City Hall building. McDonald said Kaltsas has done a great job in thinking ahead and being proactive with the budget.

Ende said an issue coming up is maintaining the 35 miles of gravel roads and costs associated with that. Spencer said Ende has done a great job with the crack sealing of roads this year.

Kaltsas said if Maple Plain Fire stays flat that will help.

6. **Sewer Rates**

Kaltsas outlined the study saying the City of Independence, Minnesota (the City) owns and operates sewer utilities. These services are provided to roughly 225 residential and commercial customers and charges for availability to another 26 parcels. The City estimates new connections as outlined on the assumptions page. Since the annual expectation for increased connections is fairly low, the City will need to rely primarily on rate increases in order to fund increased operating costs and future capital needs.

This rate study analyzes the cash flows of the sewer utilities and sewer access charge funds of the City. Sources and uses of cash are projected for the years ending December 31, 2016 to December 31, 2025. The study uses the current number and type of accounts to project future revenue at a suggested rate for each of the utility funds, each year.

Annual capital costs are projected separately for each of the funds for the projection period. The City has an updated capital improvement plan that goes from 2016 to 2025. Projections anticipate bonded street projects for each of the next five years.

The Sewer fund has had negative cash from operations for each of the previous three years presented. In order to fund future operations, capital and debt, it will be necessary to increase rates and consider establishing a sewer district for all potential users of the system.

The financial projection is based on billings at the current rate inflated (current state) and billings increased over a 10 year period sufficient to generate positive cash flow (Scenario 1). Expense assumptions are outlined in the assumptions section on the following page and present, to the best of management's knowledge and belief, the City's expected results of cash flows for the projection period if such uses of cash occur. Accordingly, the projection reflects management's judgment, as of the date of this projection, of the expected conditions and the City's expected course of action if such usage and expense totals were attained. The presentation is designed to provide information to the City Council concerning recovery of expenses that might be achieved if rates were adjusted and should not be considered to be a presentation of expected future results. Accordingly, this projection may not be useful for other purposes. The assumptions disclosed herein are those that management believes are significant to the projection. Furthermore, there will usually be differences between projected and actual results, because events and circumstances frequently do not occur as expected and those differences may be material.

Kaltsas noted the burden is placed on those who are hooked up to sewer to cover the costs of the investment twenty years ago as the 26 parcels that have availability and have not hooked up are only paying a nominal year fee in comparison. He said to cover costs the quarterly rate for paying subscribers will go up 10% over the next three years and then 3% thereafter. The rate would go from \$168.00 in 2016 to \$185.00 in 2017 to \$203.00 in 2018 and to \$224.00 in 2019. The availability rate for those that have not hooked up would go from \$32.00 per quarter to \$92.00 per quarter. McDonald said this is working towards a 2025 target to build the cash reserve. Spencer said 20 years in a septic system is fair use so what tools can be implemented in these instances to get the hookups. Kaltsas said some are senior residents waiting to sell and the buyer will have to hookup. Johnson said this is moving in the right direction.

7. **General Correspondence**- brief mention of several upcoming items.

Johnson asked about the Budd Street project. Kaltsas said it is projected to start after Labor Day.

Kaltsas said MnDOT will be coming out to meet with Staff about the County Road 90 intersection independent of the Highway 12 Coalition project. He said they are looking at a round-about at the intersection. Kaltsas said plans get approval and then it would be an 18 month timeframe to implement.

Kroells said the median barrier is funded from 6 to Wayzata. They received one bid and it was very high. They will re-open the bid and set the terms as they will close the road for 18 days instead of trying to do weekend work. Kroells said the work at the County Road 92 intersection is set to be completed on August 26th.

Kaltsas said he had a meeting with the Met Council about the proposed subdivision at 1385 Co Rd 19 (former tree farm). They talked about sewerage the development with hookups to the L63 lift station. Kaltsas said Met Council is interested in the project and it does fit in with their long range sewer plan.

5. **ADJOURN**

Johnson adjourned the work session at 8:45 a.m.

Respectfully submitted,

Trish Bemmels, Recording Secretary