

**SHOREVIEW CITY COUNCIL WORKSHOP MEETING  
MINUTES  
November 14, 2011**

**Attendees:**

City Council: Mayor Martin; Councilmembers Huffman, Quigley, Wickstrom and Withhart

Staff: Terry Schwerm, City Manager  
Tom Simonson, Asst. City Manager/Community Development Director  
Jeanne Haapala, Finance Director  
Fred Espe, Assistant Finance Director  
Mark Maloney, Public Works Director

**REVIEW OF THE PROPOSED 2012/2013 BUDGET AND TAX LEVY**

**Two-Year Budget**

A new two-year budget document was presented to the Council for review before formal adoption. A two-year budget would not cut any review time of the budget each year, but the process would be modified to check with departments to make sure the budget is in line with needs. Any significant changes would be brought to the Council. A review of the preliminary levy would still occur in August each year. One of the advantages of a two-year budget is the size of the document, as a lot of information does not change year to year. The time saved would be used to build more expertise among staff. Printing costs would be saved. It would also give staff an opportunity to focus on Council goals. The year the Council holds a goal-setting session would be the year a new budget is done.

Councilmember Withhart asked what would happen if a new Council were elected and wanted changes. Ms. Haapala stated that the process can always be redone. She added that bond agencies like to see documents that plan for the longer term, although that is not a worry for Shoreview. A two-year budget document would add to the other long-term financial planning documents already in place.

Councilmember Huffman stated that he likes the idea that the budget would be done in conjunction with the Council's goal-setting sessions.

Councilmember Quigley stated that processes already in place are embedded in the two-year budget document. It is well formatted and will be a living document to integrate with operations.

Mayor Martin stated that measurements need to be based on the community survey, and the Council needs to commit to the expense of conducting the surveys to get that information. Mr. Schwerm responded that every odd-numbered year a community survey is budgeted.

It was the consensus of the Council to move forward with a two-year budget process.

### **Budget Review**

Mr. Schwerm noted the summary chart for the tax levy over the next two years. In 2012, the tax levy is decreasing from \$9,405,000 to \$9,360,000, which is a decrease of 0.5%. The primary reason for the decrease not having to account for the loss of market value homestead credit in the levy. Actual tax collection will increase by 3.3%, when the EDA and HRA levies are counted. All revenue increases are reducing the levy by 4.5%.

Increased costs in 2012:

- Police—increased costs for wages and health insurance, vehicles, and transition Animal Control to the Sheriff's Department.
- Fire Service—the continued implementation of the duty crew program 24/7, two hours will be added to weekday evening hours and Saturday daytime hours planned in 2012.
- Personnel changes include a new full-time communications specialist position to be created; changing the Assistant City Engineer position to City Engineer; and elimination of the Park and Recreation Director position. The elimination of this position will mean that three managers in the Park and Recreation Department will report directly to City Manager Schwerm.
- Pay plan adjustment of 1% and a \$50 increase in the City's monthly health insurance contribution, which covers less than half the increase in family premiums.
- Election costs. Councilmember Wickstrom indicated that there is some discussion about Ramsey County potentially taking over City elections in the future. Schwerm noted that some cities have moved in this direction but this is not contemplated in 2012.
- Street Renewal is decreased from \$75,000 to \$50,000.

The combined result of General Fund revenue and expense changes in 2012 is a 2.43% decrease in the tax levy.

Councilmember Huffman noted that the savings from the elimination of the Park and Recreation Director position is a one-time savings.

The debt increase is for the Maintenance Center. Ms. Haapala stated that there will be a \$30,000 increase in the 2013 levy with no major changes in revenue. With the projected increases in the EDA and HRA levies, the overall projected increase in the 2013 levy is 4.25%.

Mayor Martin asked how police costs are estimated for 2013. Mr. Schwerm stated that a 3% inflation factor is used. Animal control costs in 2013 will be the same or lower. The Council will be approving the 2012/2013 budget, but budget amendments can be made in 2013. Next year, staff will present the budget in August based on the 2013 budget adopted. Any necessary revisions can be made through the Council's review process and a budget amendment. Rather

than working from the entire budget document to establish a preliminary levy, the Council will receive a summary memo.

Ms. Haapala noted that health insurance rates continue to increase, and it is frustrating to see the impact on the levy each year. However, when a comparison is made to the Ramsey County plan that the City used to participate in, the City has saved \$1.8 million over the last five years.

### **Market Value Homestead Credit/Homestead Value Exclusion**

The market value homestead credit program was established to buy down property taxes for low and moderate value homes. The homestead value exclusion program replaces that with buying down the value of property to allow tax exclusions on different valued homes. A home valued at \$76,000 receives the biggest tax exclusion credit. The exclusion is designed to replace the credit given under the old market value homestead credit program.

The city tax rate is going up less compared to other taxing jurisdictions. In 2011, a median valued home in Shoreview was \$249,000. That home value was used to calculate the taxable value. In 2012, because of market value exclusion, taxable value will drop. If it is assumed that property value is dropped by 5.5%, the impact on City property taxes is not great. However, the changes in market value of residential properties varies substantially through the City.

Councilmember Huffman noted that a home valued above \$413,000 does not receive a buy-down in value. Mr. Schwerm stated that the tax burden is shifting to apartments and commercial property, as well as higher valued residential properties.

Mayor Martin asked how higher priced homes impact lower priced homes. Ms. Haapala stated that the City's tax rate is the City's levy divided by total taxable value. Since higher priced homes do not receive a market value exclusion, they are generally picking up a higher proportion of the tax bill. Mr. Schwerm noted there is a bigger shift of the tax burden to apartment and commercial property, which values are not falling as much as residential property.

### **Utilities**

The City has experienced an ongoing issue with a decline in water use partly due to the amount of rainfall. The year 2011 is the lowest usage rate on record. As a result, the projected water revenue base is shrinking with no net gain in the Water Fund. Water rates need to increase 15% to close the gap. The good news in 2012 is that the sewage treatment rate is decreasing. The City will hold sewer rates the same to mitigate the jump in water rates. Bond agencies are looking for a long-range plan to cover the gap.

Another factor impacting the Water Fund is that between 40% to 50% of water sold is in the lowest tier. Staff will be reviewing the current tier system. The base gallons established are not sufficient to generate the revenue necessary to operate the system.

Councilmember Withhart stated that the bulk of gallons of water sold should be in the middle tier, not the lower tier. It makes sense to shift the number of gallons in the lower tier. He asked if the sewer relining project resulting in less infiltration into the sewer lines is the reason for the drop in the sewer rate. Mr. Schwerm stated that the two major sewer projects in the last four years is helping prevent infiltration into the line, which drives costs up. He stated that staff will bring back utility tiers for further review.

### **Benchmarks**

The Council reviewed the booklet showing how Shoreview compares to other similar sized cities using information from the League of Minnesota Cities (LMC) and the Office of the State Auditor (OSA). The City share of the property tax bill for a median-valued home in Shoreview (\$249,350) shows that Shoreview is 5<sup>th</sup> lowest at \$765. This is 22% below the average city tax bill of \$980. This comparison is before the market value homestead credit allocation because the allocation varies among communities.

Shoreview's tax levy ranking is 20 in 2011. It has dropped two positions in the last 10 years and is 21.1% below the average of comparison cities. Spending per capita is \$1,063, according to the Office of State Auditor (OSA), which is 24% below the average of \$1,401. Shoreview places a high priority on parks, recreation and trails and ranks No. 1 in spending per capita for their services. However, most of this spending is for the Community Center and Recreation Programs which are primarily supported by user fees. In other areas of per capita spending, the City ranks below average. These areas include such items as general government, public safety, public works, and debt payments.

Among Municipal Legislative Commission cities, Shoreview's property taxes on a median home value (\$249,350) rank third lowest at \$765 compared to a high of \$1,243 in Savage. However, county taxes in Shoreview rank 38% above average and overall taxes rate 5<sup>th</sup> highest among comparison cities in MLC.

### **OTHER ITEMS**

#### **Grass Lake Water Management Organization (GLWMO)**

Mr. Maloney stated that a representative of GLWMO will address the Council at the next meeting. The Roseville and Shoreview staff find it difficult to continue to recommend this organization as a joint powers agreement because of the requirements by state statute and the Board on Water and Soils Resources (BOWSR). The Council will not have authority over the budget, and the functions prescribed by the state will require significantly more funding. A joint powers agreement would have to give full authority to the Board regarding the budget, but the City would be responsible for collecting the revenue. If the Board requested a budget of \$500,000, Roseville and Shoreview would be obligated to fund GLWMO at that level. It is the opinion of Roseville's attorney that the City should not enter into a joint powers agreement that

abdicates budget authority to another entity. The reason GLWMO was started in its present format was to have more local control and keep costs cheaper for residents.

**RETIREMENT**

The Council briefly discussed the fact that Park and Recreation Director Jerry Haffeman will be retiring at the end of the year after serving the City for 40 years. A celebration event will be held at the Community Center on January 6<sup>th</sup>.

The meeting adjourned at 7:55 p.m.