

**CITY OF SHOREVIEW
CITY COUNCIL WORKSHOP MEETING
December 12, 2011**

Attending:

Council: Mayor Martin, Councilmembers Huffman, Quigley, Wickstrom,
Withhart

Staff: City Manager Terry Schwerm
Finance Director Jeanne Haapala
Asst. Finance Director Fred Espe
Public Works Director Mark Maloney

Grass Lake Water
Management

Organization: Steve Barrett
Karen Eckman
Jon Miller
Edward Roberts
Mary Kay Von De Linde
Chuck Westerberg
Tom Peterson, Administrative Consultant

Mayor Martin called the December 12, 2011 City Council workshop meeting to order at 7:00 p.m.

**MEET WITH REPRESENTATIVES FROM THE GRASS LAKE WATER
MANAGEMENT ORGANIZATION (GLWMO)**

The City Council met with representatives from the Grass Lake Water Management Organization (GLWMO). Mr. Jon Miller reported on the findings of a task force set up to review GLWMO's status as a water management organization and the subsequent vote by the Board for its continuance, although the vote was not unanimous. The majority opinion is for GLWMO to remain an independent entity. The minority opinion is for GLWMO to merge with Ramsey/Washington Metro Watershed District. A minority report was also written, and Joe Bester wrote a letter of recommendation for GLWMO to remain independent with approval of the revised Joint Powers Agreement.

The three alternatives considered were: 1) remain independent with improved funding; 2) merge with Vadnais Lake Water Management Organization (VLAMO), or 3) merge with Ramsey/Washington Watershed District. Concerns about merging with Ramsey/Washington is that funding collected from GLWMO area would be spent on projects from which citizens would see little benefit. A second concern is the permanence of the decision and loss of local control.

Criteria used for the analysis included effectiveness, local control, education, citizen input, city cost, resident cost per parcel, staff and Board continuity. A merger with Ramsey/Washington would be the highest cost of the three options considered, as funding would be through tax assessment. The estimated increase per parcel would be \$50.00. Grants are available, and VLAWMO has received several thousand dollars in grants every year. Ramsey/Washington receives over \$3 million in grants each year. Ramsey/Washington has 15 full-time employees; VLAWMO has three employees. Vadnais Heights appoints two of the eight members on the VLAWMO Board. The Board members of Ramsey/Washington are appointed by the Ramsey County Board of Commissioners with no city council control.

The GLWMO Board discussion focused on the loss of local control and the notable difference to residents. Those of the minority opinion point out that the County still maintains a significant amount of control. Those of the majority opinion are concerned about Grass Lake resources that would be used for projects not occurring within the GLWMO District. The most important difference between the majority and minority opinion is the perceived effectiveness of remaining independent. With improved funding, the addition of two full-time employees and focusing projects, GLWMO could become as highly functional as VLAWMO and Ramsey/Washington. The minority opinion notes that there are studies that have not been done, and even with improved funding it is not likely for GLWMO to keep pace with growing needs. The majority opinion believes GLWMO can be effective and fulfill its capabilities. That is the basis for the vote to recommend that GLWMO remain a water management organization and that the City Council approve the revised Joint Powers Agreement.

Mr. Maloney stated that for the last 17 years he has supported GLWMO to keep local control and low cost of government, but with more requirements of watershed districts, he no longer believes that local control is possible. Regional water management in the eyes of state agencies is not supposed to have local control. It is very complicated, and the job has become almost bigger than can be handled. He asked if a budget of \$150,000 includes adding staff.

Mr. Miller acknowledged a concern that the amount requested might not be enough to add staff.

Ms. Eckman, GLWMO Chair, noted that the Board of Water and Soil Resources (BWSR) (the agency that oversees watershed districts) has indicated that GLWMO must show adequate funding for the next three years. Two FTEs would eat up a lot of the money.

Mr. Schwerm stated that the difficulty with the proposed budget is that it may accommodate a minimum number of staff, but not many projects. He would anticipate that the \$300,000 budget would need to grow to \$500,000 or more to be effective in meeting state standards. The major plan amendment required in three or four years will be another expensive study that will need to be done. Shoreview and Roseville must

agree on the process to move forward. A concern of Roseville with the funding mechanism is GLWMO's authority to set a budget that the cities are responsible for collecting. The cities would have no choice in funding at the level requested. A new Joint Powers Agreement would take away the Council's ability to determine funding for the GLWMO. Roseville's City Attorney has written a letter of concern that the Council would be ceding budget authority to an appointed group. Further, BWSR wants water management to be independent of councils and cities. Mr. Maloney added that state statutes are explicit about regional water governance. It was never intended to be an entity of the city. It is intended to be an autonomous board with clear expectations for high profile work.

Mr. Schwerm noted that VLAWMO sought special legislation so that cities would not have to contribute a share of the budget. VLAWMO has taxing authority, but it is done differently than the typical watershed. It shows as a charge on the property tax bill, similar to a recycling charge. Citizens pay per property. The difficulty in merging with VLAWMO is that six other cities would have to agree to take in Shoreview and Roseville. Then a legal interpretation would be needed regarding taxing authority.

Mr. Peterson stated that either a Councilmember or the Mayor would serve on the Board of Directors. An elected official must represent the City.

Mayor Martin stated that it is difficult to find that type of commitment from elected officials who are participating in other projects.

Councilmember Huffman asked for a summary of Roseville's position. Ms. Eckman stated that Roseville has not yet decided. Roseville did vote to approve \$37,000 just to make sure funds would continue. Mr. Schwerm added that Roseville has not decided on a joint powers agreement pending Shoreview's discussion.

Councilmember Wickstrom asked if other organizations could absorb the overhead needed without added cost. Mr. Peterson responded that has not been determined.

Ms. Eckman stated that she does not believe Ramsey/Washington would need to add much to merge with GLWMO. Mr. Maloney noted that Ramsey/Washington covers an area five times the size of GLWMO. They have 15 staff people with an annual budget of over \$7 million.

Mayor Martin asked if Ramsey/Washington has a good track record with projects. Mr. Miller stated that Ramsey/Washington does projects on a much bigger scale. One of their biggest projects is the Maplewood Mall storm water runoff. They have the capacity to do large major projects, as well as small, local projects. Mr. Peterson added that Ramsey/Washington acquired the Beltline Comp Water Interceptor project from the Metropolitan Council years ago. They have a major storm water drain structure. They have taxing authority, and taxes are approximately \$24 to \$25 per \$100,000 in market value.

Ms. Eckman noted that Ramsey/Washington does a lot with schools. A shoreline restoration project on Lake Phalen involved school children.

Mayor Martin asked the potential impact of the loss of local control. Mr. Westerberg stated that he has been a Shoreview resident over 40 years and supports the majority opinion. He is impressed with the reliance on local talent and resources to address local challenges. He believes engaged citizens is a model that can be put into practice and applied to the future governance of GLWMO. After listening to testimony at the public hearing, the obvious sentiment is to retain local control and use local dollars to solve water quality problems. More resources will be needed to address problems. A good faith effort to implement the recommendations from the Barr Report will go a long way to improve water quality. He does not see how GLWMO would be more cost effective, if it were to merge with Ramsey/Washington. GLWMO does not have a debt service component in its budget, or line items for employee pension benefits. There are untapped resources and local talent to be enlisted without the overhead of a 15-member paid staff. The cities of Roseville and Shoreview can hire additional engineering staff with part of that cost billed to GLWMO. It is a paradox that BWSR advocates for water organizations. The opposite approach is taken by the Minnesota Pollution Control Agency and by extension, the Environmental Protection Agency. When addressing the most vexing problem affecting non-point source runoff, local land use practices should be addressed and working with individual property owners to reduce their contribution to pollution. He believes the two cities can support the vision of an effective GLWMO.

Councilmember Huffman stated that his concern is the total carte blanche authority a continued GLWMO would have on the City budget. Mr. Westerberg stated that this is BWSR's attempt to consolidate water management organizations, which is like a poison pill. Oversight from the legislature is perhaps needed. The MPCA and EPA are pushing to decentralize water management, and BWSR is pushing for centralization. GLWMO's next action is to make a formal recommendation for the City to take action to approve the revised Joint Powers Agreement and revised budget and to make appointments.

Councilmember Quigley stated that anytime the City deals with water, there are layers of agencies. It is difficult to recruit the right kind of volunteers. The City has a record of competence. It is difficult to understand the best option to move forward.

Mayor Martin stated that when the 2012 budget is approved, it maintains the status quo. Other steps would be taken in January after there has been a chance to have discussion with Roseville. What is needed is expertise and highly trained technical capabilities. Leadership and technical support are a real concern.

She further stated that she has concerns whether Roseville is on the same page as Shoreview and whether the City can afford GLWMO. The idea of cost increases to the Shoreview budget is overwhelming. Even though the levy decreased this year, there are still people with big increases in taxes. Funding GLWMO would be a significant increase in costs for residents in the watershed area.

Councilmember Withhart expressed concern about making a decision that binds future City Councils to approving a budget submitted by another organization over which there is no control, and costs which have to be passed on to taxpayers.

Councilmember Wickstrom asked if it would be a better fit to merge with VLAWMO. Mr. Westerberg stated that the VLAWMO watershed is more similar to GLWMO with no urbanized setting and no toxic industrial discharges. From that perspective, VLAWMO is better. Ms. Eckman noted that all member cities in VLAWMO would have to approve Shoreview's membership. While urban, Ramsey/Washington's philosophy is restoration and protection. It is cheaper to protect good water, and the state is moving in that direction. The watershed district is charged with protecting our good water as much as addressing impure water.

Regarding finances, Mr. Peterson noted that Shingle Creek had the same issues a few years ago. They chose to operate on a joint powers agreement using a consulting service rather than hiring employees. They established a base line revenue that each party is responsible to provide on an annual basis that allows for automatic inflation using the CIP. Any funding above the CIP would require unanimous approval of all member city councils. This was acceptable to BWSR. The consultant administers engineering and technical services.

It was the consensus of the Council to consult with Roseville on the issues discussed above regarding renewal of a joint powers agreement for GLWMO.

ITEMS RELATED TO 2012 BUDGET AND TAX LEVY

- A. REVIEW OF FIVE-YEAR OPERATING PLAN**
- B. REVIEW OF PROPOSED UTILITY RATE ADJUSTMENT**
- C. REVIEW OF DRAFT BUDGET POLICY**

FIVE-YEAR OPERATING PLAN

In this review of City spending, the market value homestead credit is not included as part of the levy so as to see the actual growth in City spending. In 2013, a street bond is proposed and with spending increases in police, fire and other areas. The proposed levy increase for 2013 is projected to be 4.24%.

The plan assumes one more year of declining property values, a couple of years of flat value and then up 2% per year in the last two years of the program. From a property value perspective, there will be a continuing increase in tax rates, a norm in metro area cities.

Councilmember Huffman stated that he would not be comfortable with a levy increase of approximately 4.25% in 2013. The increase is too high based on expenditures.

Mayor Martin stated that the numbers presented are well calculated. Things do change in a short period of time. The savings used from a retirement position lowered the levy this year. That is a one-time impact on the levy which lowers the base.

Councilmember Withhart added that the legislature can change the rules at any time. He believes the assumptions in this review are reasonable. The street costs in the levy do not impact residents with special assessments.

Councilmember Wickstrom stated that this report is a good starting point. She does not want to cut something one year and have it reinstated the following year. She would prefer small increases rather than a yoyo effect.

Councilmember Quigley stated that the value of this process is to understand how all factors come together to deliver services. Staff's reporting on what actually happens is part of the process. He wants to be sure that fund balances that come up short are covered.

Mr. Schwerm explained that the levy growth of 1.3% to 1.5% per year is attributable to debt service and capital funds. The General Fund is growing between 3% and 3.5%. The things driving the General Fund faster than inflation are costs for police and fire protection. When the Council receives this report, the working capital targets are adopted as outlined for each fund. The Council has the ability to revise those targets.

PROPOSED UTILITY RATE ADJUSTMENTS

Water Fund

Ms. Haapala reported that the Water Fund continues to see a downward trend. The year 2010 was a record low year, and 2011 projections are even lower. Projected utility revenue is based on gallon consumption. It is recommended that the water rate structure be designed to bring in the necessary revenue to cover 2012 operation costs. There are three water tiers of consumption charges. The majority of gallons are in Tier 1, as the structure was designed to reward low usage. Staff has begun to explore a revised utility rate structure that would have four residential tier rates and three commercial/industrial tier rates. The changes proposed are:

1. Increase the water availability charge from \$11 per quarter to \$13 per quarter;
2. Decrease gallons billed in Tier 1 to 5,000 gallons and increase Tier 1 water rate by \$.03 per 1,000 gallons.
3. Add a new water tier between the old residential Tier 1 and 2, and bill the second 5,000 gallons at \$1.69 per 1,000 gallons from Tier 1 to the new Tier 2.
4. Increase the old Tier 2 rate by \$.29 per 1,000 gallons.
5. Increase the old Tier 3 rate by \$.59 per 1,000 gallons.

Councilmember Quigley asked if there are any models that show what drives water usage. Ms. Haapala responded that there is no method to predict any more accurately what water usage will be.

Councilmember Huffman stated that it always feels like this fund is just barely making it. The difference between Tier 1 and Tier 4 is 300%. He asked the reason for such a big spread and whether a tier structure is the best model. Ms. Haapala explained that the City is required to have a water conservation incentive. If residents bought all the water they wanted, there would be a risk of overtaxing the system and not having the capacity to serve customers. A new water tower would have to be built, which would be extremely expensive. The tier structure has served the City well, however with declining water sales, it has created a challenge to adequately fund our operating costs. Adding a second tier is the best approach to stay competitive and bring in more revenue.

Sewer

Ms. Haapala stated that customers are most concerned about sewer rates. It is proposed that sewer rates be frozen for 2012. Holding sewer rates constant will partially offset the increases in the water rates.

Councilmember Withhart asked about infiltration of water into the sewer with roots and cracks. Mr. Maloney stated that the meters are at municipal boundaries. Relining and repairs have greatly helped water infiltration.

Councilmember Huffman asked if there would be an advantage to build the planned water treatment plant sooner. Mr. Schwerm stated that any surplus in the fund is kept to manage debt that has to be issued. The water treatment plant is planned in 2015. Staff is considering a 2013 rate structure that would build up the fund balance to pay that debt service for the treatment plant.

Further, Ms. Haapala stated that the recommended increase for storm sewer is 10%, which would be \$1.60 per quarter for single-family properties; \$1.69 per quarter for multi-family units and \$13.36 per acre per quarter for all other customers. Street lighting is recommended to increase \$1.82 per unit per quarter; \$1.37 for condominiums, apartments and mobile homes; and \$5.47 per acre per quarter for all other customers.

Councilmember Withhart asked if the rate increase for surface water is enough to cover pond dredging. Mr. Maloney stated that there is a moratorium on large scale pond dredging until the Pollution Control Agency settles on threshold standards for pond sediment.

Councilmember Withhart suggested that the new standards will be expensive and perhaps higher rates should be considered to build this fund. Mr. Schwerm stated that once the water fund is built up, then larger increases can be considered for surface water and street lighting. Overall, utility rate increases are going up about 8% for a large percent of utility customers.

Street Lighting

The residential rate will increase \$1.82 per unit per quarter in 2012. The rate for condominiums, apartments and mobile homes will increase \$1.37 per unit per quarter. The rate for all other customers will increase \$5.47 per acre per quarter. Street light replacements in every neighborhood come out of this fund over the lifetime of the assets. Public Works is ramping up street light replacement because of problems. This is putting pressure on the cash balance.

Mr. Schwerm stated that the biggest challenge is that repair costs are higher than in the past. Wiring is not buried in conduit. If lights go out, it is often not the bulb but the wiring that has to be replaced. When new wiring is replaced, it is buried in conduit, but that is expensive.

Budget Policy

A formal budget policy was proposed to address preparation, time frames, content and management of the biennial operating budget and capital improvement plan. Ms. Haapala stated that the two-year budget process means that the first year is a spendable budget once approved. The second year budget is a plan that is not spendable until it has gone through the normal budget process, which either reaffirms or amends that budget and the levy. The advantages of a multiyear budget are:

1. Reduces staff time devoted to budget development;
2. Improves the long-term planning and priority setting process;
3. Enhances management of financial resources; and
4. Encourages a more policy and goal oriented budget process.

A fund balance policy would be adopted to restore a fund when there are unanticipated costs. A plan would be implemented over time to bring the fund back to its fund balance target.

It was the consensus of the Council to accept the proposed budget policy.

OTHER ITEMS

Acting Mayor Rotation

Councilmember Huffman announced his intention to run for a Ramsey County Commissioner position next fall, which would mean he would not run for City Council. He indicated that if running for another office creates any type of conflict in serving as the Acting Mayor, he would be willing to forego his scheduled spot in the Acting Mayor rotation.

Signage

Mayor Martin reported that she was visited by a representative from Meister's expressing distress about having to take down added signage. It was argued that these signs make them more visible which has been critical in this tough economy. With the berm that is in place, Meister's is barely visible.

Councilmember Quigley requested a recommendation from the Economic Development Commission (EDC). Mr. Schwerm noted that the EDC tends to advocate for anything that can be done to help businesses including temporary signage while the Planning Commission advocates for stricter enforcement of City Code. Temporary signs are allowed for 30 days. Staff has tended to be more lenient in the past year with respect to temporary business signage.

It was the consensus of the Council that in light of the economy, staff is to look into whether 30 days is long enough or whether an amendment is needed that is more reasonable.

Dog Parks

Councilmember Wickstrom reported receipt of a complaint that big dogs are taking over the off leash dog areas in the hockey rinks and there is a problem with owners not cleaning up after their pets. Mr. Schwerm noted the hockey rinks available for all dogs because it is difficult to regulate and enforce size restrictions. In Coon Rapids, they have parks with two hockey rinks in them so they can more easily design one for large dogs and one for smaller dogs. The issue will be further reviewed if there are more problems.

The meeting adjourned at 9:35 p.m.