CITY OF SHOREVIEW
AGENDA
CITY COUNCIL WORKSHOP
DECEMBER 12, 2011
7:00 P.M.

1. ROLL CALL

2. MEET WITH REPRESENTATIVES FROM THE GRASS LAKE WATER MANAGEMENT ORGANIZATION

3. 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

4. OTHER ITEMS

5. ADJOURNMENT

TO: MAYOR, CITY COUNCIL, AND CITY MANAGER

FROM: MARK J. MALONEY, PUBLIC WORKS DIRECTOR

DATE: NOVEMBER 15, 2011

SUBJ: GLWMO UPDATE

The Grass Lake Water Management Organization (GLWMO) is scheduled to address the City Council on topics relating to their governance structure as well as the potential financial impacts on the City. The need to address the governance structure and financing of the organization is a direct result of the updating their Management Plan. The updated Management Plan will require revisions to the Joint Powers Agreement between Roseville and Shoreview as well as identifying funding alternatives necessary to fund their plan activities for the next 10 years.

GLWMO Background

The GLWMO was created in 1983 through a Joint Powers Agreement (JPA) between the cities of Roseville and Shoreview. The jurisdictional boundary of the WMO is shown on the attached map. The creation of the WMO was in response to State Statute 103B and Rules 8410 that directed that all of the Twin Cities Metro Area would have some form of watershed-based governance. The two ways that was accomplished was by either an agreement (JPA) of cities that created a Water Management Organization, or by County-created Watershed Districts. Similar to local units of government, WMOs and Watershed Districts are required to develop and implement Water Management Plans, and identify their fund sources. The Board of Water and Soil Resources (BWSR) is the state agency with the responsibility of oversight of WMO/Watershed Districts, and management plans are subject to their approval.

There are examples of both WMOs and Watershed Districts in and around Shoreview; Rice Creek Watershed District, Ramsey-Washington Metro Watershed District, Vadnais Lakes Area Water Management Organization, etc. While the statutes and rules essentially give WMOs and Watershed Districts the same responsibilities, there are some very important distinctions. Whereas the Board members of WMOs are typically appointed by the City Councils of the communities, Districts Boards are created by County Board appointments. In most cases, the funding for WMOs comes from City sources (e.g. storm water utilities), but Districts have ad valorem taxing authority. In cities like Roseville and Shoreview, where both types of watershed management groups exist, residents within the jurisdiction of a Watershed District are also paying (via the City's storm water utility) for water management services/governance in a separate WMO area. The Vadnais Lake WMO, an adjacent six-city JPA that includes Vadnais Heights, North Oaks et. al. developed their own funding mechanism (independent of their member cities) through special State Legislation that allows them to operate their own storm water utility that uses the County Property tax system for collection.

At 9.0 square miles, GLWMO is by geographic area one of the smallest organized watersheds in the State of Minnesota. At the time of creation of GLWMO, the Cities of Roseville and Shoreview were seeking the lowest cost and least bureaucratic approach to meeting the requirements of the statutes and rules. Roseville has acted as the official Treasurer for the WMO, and the Public Works Directors of the cities alternated the responsibility for administrative support through 2008. Needless to say, much has changed in the world of surface water management since 1983, and the expectations of both the regulatory agencies and the public have advanced far beyond what was envisioned at the time of GLWMO's creation. While there is potentially much in common between the long range objectives of the WMO and the member cities, the priorities typically differ and the Public Works representatives can't effectively advocate both a watershed position and a city position. GLWMO currently contracts for independent Administrative and Engineering services and will continue need to do so in the future.

Given how complicated (and expensive) surface water management has become, there are legitimate concerns regarding the effectiveness of water management organizations in Minnesota. Amid concerns for the major water resource in the area (McCarron's Lake) the 40 square mile Capitol Region WMO, which included southern Roseville, was dissolved and replaced with a Watershed District with taxing authority in 1996. As regional water management continued to distance itself from what local government could be expected to provide, the topic was brought before the State Legislature. In 2007, the Office of the Legislative Auditor delivered a 107-page report detailing their findings regarding water management models. Attached is the cover letter to the report, which succinctly states the nature of the concern, and the Recommendation section of the report. It is clear that the State's Board of Soil and Water Resources (BWSR) is implementing many of the recommendations of the report and holding all WMO's to standards that they may not have been acknowledged in the past. The report underscores the inherent difficulty for small water management organization to exist and legitimately questions their ability to protect the water resources in their jurisdictions given their reliance on city support.

In the current review of GLWMO's draft management plan, BWSR is requiring that the JPA between Roseville and Shoreview be amended to be explicit regarding the autonomy of the WMO's budget process and spending, regardless of fund source. This essentially sets up the scenario that the cities are required to provide the WMO funding without any direct authority over setting or approving budgets or spending priorities.

Funding Concerns

Per the existing JPA between Roseville and Shoreview, GLWMO establishes its own budget and divides the request equally between the two cities. It was reported to the City Council earlier this year that Shoreview's portion of the GLWMO proposed budget was estimated to increase from $30,000 to $150,000 annually for the next 10 years. Since the staff has now conducted a more thorough review of the implementation portion of the draft GLWMO Management Plan, it appears that some of the project costs and/or assumptions for City cost participation may be understated. If the JPA continues as amended per BWSR's requirements, there would be additional financial impact on the member cities. In addition, GLWMO is now proposing a work plan that anticipates a major Plan amendment in 3 to 4 years which would in all likelihood require further increases in their budget and, correspondingly, the City's financial responsibility.

The concept of continuing to use the City's Storm Water Utility, with a rate specific to the GLWMO budget within the Grass Lake Water Management area, was discussed with the City Council earlier this year. That discussion occurred prior to the detailed analysis of the implementation portion of the draft WMO Plan and WMO's Governance Task Force process. Further, it has become clearer that the JPA revisions required will severely limit the amount of influence the City could hope to have on the WMO budget. At this time, based on a number of concerns held by staffs of both Roseville and Shoreview, it isn't clear that it would be in the City's best interest to pursue that option as a funding mechanism.

GLWMO Status

GLWMO's Watershed Management Plan is technically out of date and is in the process of being updated; the GLWMO Board and their consultant have been processing the results of the public and agency comments received. At the same time, a GLWMO Governance Task Force has been studying the alternatives available for the management of water resources in the jurisdiction. Those options include 1) trying to continue to exist as a WMO through a revised JPA; 2) to dissolve and seek to be combined with the Vadnais Lake Area WMO; or 3) to dissolve and be included in the jurisdiction of an adjacent Watershed District, most likely Ramsey-Washington Metro Watershed District. The GLWMO Board members are scheduled to comment on the outcome of that analysis, and as noted in the attached report, are advocating to remain an independent WMO (Option 1). It should be noted that there appears to be significant differences of opinion amongst the Task Force and Board members on this recommendation.

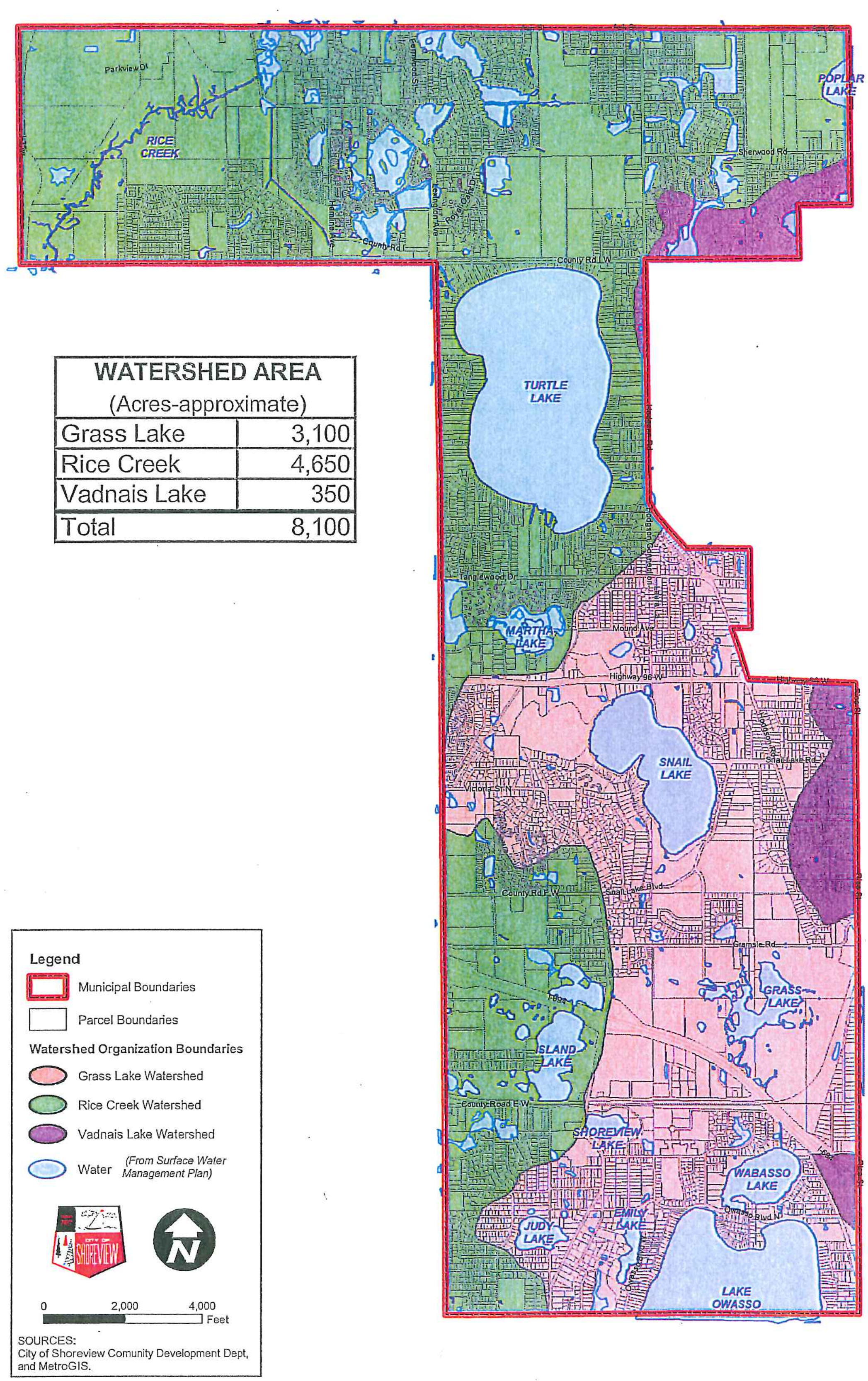
There are a number of practical implications to this deliberation, as well as a timing issue concerning the fact that the Shoreview City Council is responsible for the appointment of two GLWMO Board members by January, 2012. BWSR has indicated that it cannot complete its process of review and approval of the draft Management Plan unless and until the Cities approve the updated JPA, which the cities have concerns over. The City shouldn't move forward on the appointment of GLWMO Board members if the either Roseville or Shoreview City Council isn't agreeable to the proposed JPA changes, in which case the WMO would likely be dissolved by subsequent actions of the cities and BWSR.

City Staff Observations

A WMO relying on a joint powers agreement arrangement, with the member cities primarily being responsible for providing the funding seems the least likely to have success given the complexities and costs of adequately addressing water quality concerns. Vadnais Lakes Area WMO addressed these challenges through special legislation that created an independent funding source. While their member cities are still responsible for Board appointments, the cities themselves have no authority to set or approve the WMO's budget or spending priorities. The concept of "local control" doesn't seem to be applicable to regional water management principles as embodied in State Statutes and Rules.

The consideration of the current GLWMO jurisdiction being absorbed into Vadnais Lake Area WMO is problematic for at least two reasons. While there may be a hydrologic connection between the water bodies in the two jurisdictions, it cannot be presumed that the existing 6 city JPA would easily be amended to include the cities of Roseville and Shoreview. It would likely be a lengthy and intensive process to get the 6 diverse cities to agree to the change, with any one essentially having veto authority over the changes. Further, it isn't clear whether the authority VLAWMO received through special legislation for funding would automatically extend to the newly added areas of Roseville and Shoreview. Therefore, a significant amount of research would need to done, without any assurance that it could actually end up being an effective governance model for the water resources in the GLWMO jurisdiction, e.g. Snail Lake, Lake Wabasso, Lake Owasso.

Given the recent trends, it seems almost inevitable that water resources in small WMO's like Grass Lake would be best served by the resources, expertise and funding authority inherent to a Watershed District.



WATERSHED AREA (Acres-approximate)	
Grass Lake	3,100
Rice Creek	4,650
Vadnais Lake	350
Total	8,100

SEH
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FILE NO.
ASHORE0201.00

DATE:
01/27/04

Watershed Boundaries
City of Shoreview, Minnesota

Figure
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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

January 2007

Members of the Legislative Audit Commission:

Water is one of Minnesota's most important resources. Protecting water from the impacts of agricultural, commercial, and residential activities and development is an essential government responsibility. That responsibility is shared by a complex array of local, state, and federal organizations. This evaluation was prompted by concerns that some of the government organizations established to protect Minnesota's water resources are not functioning effectively.

We confirmed many of those concerns. While we found hardworking people dedicated to protecting Minnesota's lakes, streams, and wetlands, we also found that some local water management entities have struggled to carry out their duties. We also found that the Minnesota Board of Water and Soil Resources (BWSR), the state agency primarily responsible for overseeing these local entities, has not adequately held them accountable for fulfilling their goals. We recommend that the Legislature restructure BWSR, give it more authority, and require it to play a stronger role in protecting Minnesota's water resources.

This report was researched and written by John Patterson (project manager), Jan Sandberg, and David Kirchner. BWSR and the numerous local watershed management organizations we contacted cooperated with our evaluation.

Sincerely,

James Nobles
Legislative Auditor

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RECOMMENDATIONS

To improve the oversight of local water management entities, we make the following recommendations.

RECOMMENDATION

The Legislature should require BWSR to provide greater oversight of local water management entities and hold each of them accountable for their performance. Specifically, the Legislature should require BWSR to:

1. *Establish performance and operational standards for watershed districts, WMOs, SWCDs, and counties;*
2. *Collect performance, financial, and activity data from each entity;*
3. *Monitor the performance and operations of the entities and compare them with the established performance and operational standards; and*
4. *Release public assessments of each entity's performance.*

We are not recommending specific standards because we believe that BWSR is in a better position to establish these standards. The agency works with local water management entities on a regular basis and understands its own and the entities' capacities.

BWSR needs to establish performance standards.

Establishing performance and operational standards will be challenging for BWSR. The standards will have to be consistent and fair but also flexible enough to take into account the different circumstances of each local entity. For example, some entities have significant local resources to address their watershed management issues, while others do not. Some entities will only need to carry out relatively simple projects to address their water problems, while others will have to take on complex and costly projects.

At a minimum, BWSR should hold local water management entities accountable to the goals and objectives that these entities establish for themselves in their management plans. In these plans, the local entities articulate the goals and objectives they would like to achieve over the next five to ten years and the actions they will pursue to achieve them. BWSR could formally establish these locally-defined goals and objectives as performance and operational standards that need to be met. BWSR reviews and approves these management plans before they go into effect.

However, as we discussed in Chapter 3, BWSR's oversight largely stops after it has approved the plans. It does not systematically track the activities and performance of the local water management entities or hold them accountable to the goals and objectives that they have set for themselves. BWSR needs to go further. It needs to track the activities of the local entities and determine whether they are achieving their own goals and objectives. On a periodic basis (such as every two or three years), BWSR could issue assessments of each entity. The assessment could be as simple as (1) "making adequate progress toward achieving goals and objectives," (2) "struggling to make adequate progress," and (3) "failing to make adequate progress."[1]

We think that BWSR can and should do more than just use the locally-defined goals and objectives as the standard against which the local entities will be assessed. BWSR should establish state-defined standards that that local entities are expected to meet.[2] Ideally, these standards should establish specific outcomes (such as water quality improvements and flood risk reductions) that need to be achieved. With respect to water quality, the TMDL process should facilitate the establishment of outcome-based standards. For example, if a TMDL report determines that phosphorus loading along a stream segment needs to be reduced by 50 percent, the local entities that manage the water that flows into that stream segment should be expected to meet that goal.

BWSR should respect local goals but also pursue state-defined objectives.

Establishing and enforcing outcome standards will be difficult for two reasons. First, it can take years for positive outcomes to become apparent. For example, even if a local water management entity significantly reduces the level of phosphorus getting into a lake, the level of phosphorus in the lake water may not decline for a long time. Phosphorus accumulates in the sediment at the bottom of polluted lakes and is recycled back into the water over time. Even if a water quality program reduces the level of new phosphorus entering the lake, the lake bottom will continue to add phosphorus to the water over time. Second, it can be difficult to attribute positive or negative outcomes to a specific entity, program, or project. As we have discussed throughout this report, multiple entities often implement multiple programs and projects to manage a single lake or stream. It is difficult to apportion credit for outcomes among these entities, programs, and projects. In addition, human activities that are not entirely within the control of local water management entities, such as development, affect water quality and flood risk.

Even with these concerns, outcome-based assessments are possible. For example, to measure the impact of a water quality project along a stream, a local water management entity could measure water quality above and below the project site at two different times – before and after the project. These measurements would help isolate the impact that the project had on pollutants getting into the stream. However, this type of outcome-based assessment requires extensive monitoring, which can be expensive.

If outcome-based assessments and standards are not feasible, BWSR could establish operational standards. For example, we found that struggling local entities appear to devote a large share of their resources to planning and general administration. BWSR could establish a standard for the maximum amount that should be spent on these activities.[3] If a standard of this type is established, some

[1] To ensure that the local management entities are establishing goals and objectives that are adequate, BWSR needs to ensure that its standards for reviewing and approving local water plans are set sufficiently high. In this evaluation, we did not evaluate the adequacy and rigor of BWSR's current standards.

[2] There could be different standards for each type of entity. For example, watershed districts could have one set of standards, while joint powers WMOs could have another.

[3] The standard for the maximum amount that should be spent on planning would need to be adjusted upward when a local entity is establishing or updating its management plan. In addition, BWSR would have to develop (1) a detailed definition of planning and general administration expenditures and (2) a mechanism for accurately reporting expenditures to BWSR.

flexibility should be added. There may be perfectly acceptable reasons why a watershed district, WMO, or SWCD is spending a large portion of its funds on general administration and planning. BWSR may want to use the standard as a threshold that triggers further inquiry. For example, BWSR may want to examine more closely the operations of any watershed district that devotes more than 50 percent of its funds to general administration.

Because local entities operate in very different circumstances, BWSR may want to develop "peer groups" when assessing performance. For example, one group could include watershed districts that operate in agricultural areas and are primarily concerned with water quality issues. BWSR could then establish separate performance and operational standards that reflect the particular circumstances of each group.

BWSR should periodically assess the performance of local water management entities and make the assessments public.

Citizens, legislators, and executive branch officials are entitled to more consistent reporting on the performance of local management entities. Public assessments would increase awareness of Minnesota's watershed management system. Local stakeholders could use the assessments to hold underperforming local entities accountable, and entities that perform well would be able to make a stronger case for local support.

To ensure effective implementation of this recommendation, the 2007 Legislature should require BWSR to report back to the 2008 Legislature on the performance and operational standards and measures that it has developed.

RECOMMENDATION

The Legislature should require BWSR to identify and propose to the 2008 Legislature additional enforcement tools that it will need to encourage and compel consistently low-performing watershed districts, WMOs, SWCDs, and counties to improve their operations and performance. The Legislature should then give BWSR the authority to use these additional tools.

As we discussed in Chapter 3, if a local water management entity is performing poorly, BWSR has limited authority to hold it accountable, particularly in outstate Minnesota. The actions that BWSR can take against low-performing entities vary between the metropolitan area and outstate Minnesota. In outstate Minnesota, BWSR has two options: it has the authority to withhold grant funding (if the entity receives grants) or terminate the entity. As we discussed in Chapter 3, BWSR's authority to terminate entities is limited.[4] In the metropolitan area, BWSR can take additional action against watershed districts and WMOs. For example, if BWSR determines that a watershed district or WMO in the metropolitan area has not implemented its management plan,

[4] Under state law, BWSR has the authority to terminate watershed districts, WMOs, and SWCDs, but it does not have the authority to dismantle counties. In addition, BWSR is not able to take unilateral termination action unless a joint powers WMO fails to create or implement a management plan (*Minnesota Statutes* 2006, 103B.231, subd. 3b – 3c). To terminate a watershed district, BWSR must first receive a petition from citizens or local units of government asking for the entity to be terminated (*Minnesota Statutes* 2006, 103B.221 and 103D.271). To terminate an SWCD, BWSR must first receive and review the results of a locally passed referendum that calls for the termination of the SWCD (*Minnesota Statutes* 2006, 103C.225, subd. 1-4).

BWSR can ask other state agencies to stop issuing water-related permits within the watershed.[5] Across the state, we believe that BWSR should have the discretion to pursue a wider range of enforcement actions, so that the agency can provide assistance or impose penalties as warranted by a particular situation.

We are not recommending specific enforcement tools because we believe that BWSR is in a better position to identify them. However, we are particularly concerned about the lack of authority that BWSR has over outstate watershed districts, especially those that do not receive any funding from BWSR. Other than approving their management plans and having the authority to terminate them, BWSR has little authority over outstate watershed districts.

RECOMMENDATION

The Legislature should change the governing structure of BWSR. Specifically:

1. *The agency should be administered by a director who is appointed by the Governor and confirmed by the Senate; and*

2. *The BWSR board should change from a governing board to an advisory commission.*

The Legislature should change BWSR's governing structure to make it a more effective executive branch agency.

Under current law, BWSR is governed by a 17-member board. While the Governor appoints the members, nine of them (a majority) must represent counties, SWCDs, watershed districts, and WMOs.[6] The board sets policy and chooses the agency's executive director.[7] We think this structure should be changed.

We anticipate that some people and organizations—including BWSR—will probably oppose these changes. They believe that BWSR should be structured as an "advocacy organization" that brings together the various state and local entities and interests to discuss and resolve issues before state action is taken. They have told us often that BWSR is "unique" and should not be organized like other state agencies.

We agree that BWSR has produced good results in some areas. In addition, we did not find evidence that board members have acted inappropriately to overtly impede BWSR's executive director or staff. Nevertheless, we think the water issues facing the state could be more effectively addressed if BWSR was more accountable to elected state officials.

BWSR will certainly have to continue to work closely and cooperatively with local water management officials, but we think it should also be better equipped and more willing to take prompt and effective action when local water management entities are not adequately protecting the state's water resources. We think that kind of action is more likely if the head of BWSR is appointed by the Governor and confirmed by the Senate.

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[5] *Minnesota Statutes* 2006, 103B.231, subd. 3g(3).

[6] *Minnesota Statutes* 2006, 103B.101, subd. 2.

[7] *Minnesota Statutes* 2006, 103B.101, subd. 4.

In addition, we do recommend keeping a forum for local water officials to offer their perspectives and advice to the head of BWSR, but their role should be advisory. We simply do not think a state agency should be run by a multimember board that is controlled by local officials, particularly an agency charged with protecting such an important state resource. In short, we think the state should manage its responsibilities for water resources like it manages all other key responsibilities – transportation, education, human services, and natural resources – with ultimate accountability to the Governor and Legislature.

RECOMMENDATION

The Legislature should ensure that BWSR has adequate resources to perform its new oversight responsibilities.

BWSR may need additional authority and resources to ensure that local water management entities perform effectively.

Our evaluation did not include an overall assessment of BWSR's operations to determine whether the agency could assume the additional oversight responsibilities that we have recommended with existing resources or whether the Legislature would need to appropriate additional funds. However, it is possible that BWSR will need additional resources. As we described in Chapter 4, BWSR has lost more than 10 percent of its internal resources and staff over the past six years without a reduction in responsibilities. If BWSR needs additional funds to perform its new responsibilities and the Legislature continues to fund the Clean Water Legacy Act, the Legislature may want to direct a small portion of these funds to BWSR for its oversight responsibilities. As we discussed in Chapter 4, a significant portion of the funds for the Clean Water Legacy Act will likely go to local water management entities. Consequently, the state needs to ensure that these entities are operating effectively.

POLICY OPTIONS

As we described in Chapter 1, Minnesota manages its watersheds through the combined actions of a complex network of state and local agencies working cooperatively with the federal government. The recommendations we made above are directed toward improving the performance of the current system in Minnesota. However, the state has several other options for improving performance and accountability, some of which would be a dramatic change.

In the following sections, we examine some of these other options. We present them as policy options without recommendation and identify some potential advantages and disadvantages of each option. It is unclear from the evidence that we gathered whether the identified advantages would outweigh the disadvantages.

Sunset Provisions

As we have discussed, outstate watershed districts are independent and often face little accountability from the state. They have appointed rather than elected boards, have independent taxing authority, and are generally not reliant on grants. Thus, after BWSR has approved the districts' management plans, the only authority that the state has over them is the threat of termination. However, under current law, terminating an outstate watershed district is an extended

Under current law, it can be difficult to terminate an outstate watershed district.

process that requires considerable effort by local citizens. Opponents of the district must collect the signatures of 25 percent of the resident homeowners on a termination petition. Only after this condition is met will BWSR hold a hearing to determine whether the district benefits the public interest.[8] Short of legislative action, there is no state-initiated way to terminate a watershed district.

Outstate watershed districts could be held accountable through a statutory sunset provision that would require them to be reauthorized periodically in order to continue operations. The sunset provision could be structured in several different ways. For example, reauthorization decisions could be made by BWSR, by county boards, or through a referendum. Requiring regular reauthorization could improve the accountability of watershed districts by requiring them to justify their value at regular intervals.

However, a requirement for regular reauthorization could reduce the effectiveness of watershed districts by discouraging them from carrying out necessary but controversial actions. Watershed districts' independence may allow them to make unpopular decisions and remain somewhat insulated from the political process. Making watershed districts more accountable to voters and county boards will reduce their independence. Furthermore, a sunset provision might make long-term planning by state and regional agencies more complicated, since there would be less certainty about the long-term stability of important local partners. Finally, sunset proceedings may be time consuming and disruptive for all of the parties involved.

Selection of Board Members

There are good arguments for and against electing board members to local water management entities.

Watershed districts and SWCDs have different methods for selecting board members. Watershed districts have regulatory and levy authority, but they are not directly accountable to voters because their board members are appointed by county boards and not elected. In contrast, SWCDs have no real authority other than the ability to distribute funds and staff resources. Yet, their boards are elected. We considered two possible alternatives: (1) elect, rather than appoint, watershed district board members, and (2) appoint, rather than elect, SWCD board members (particularly in metropolitan counties).

Election of watershed district board members would make districts more accountable to their constituencies. The election process could also increase the visibility of districts. However, as noted above, a possible advantage of watershed districts is that they have the autonomy to make necessary but politically unpopular decisions. Another possible consequence of a shift to elected boards could be greater difficulty in recruiting prospective board members, who may be reluctant to go through the campaign and election process.

Furthermore, elected boards do not necessarily increase accountability or improve performance. As described in Appendix A7, the Hennepin SWCD was considered "one of the best" in the state in the 1990s. But in November 2000, a former employee who had been fired was elected to the district's board, and board meetings rapidly became contentious. The other board members even brought lawsuits against the new board member, charging that she had publicly

[8] *Minnesota Statutes* 2006, 103D.271.

disparaged the district. The new board member countersued. In response to fears that continuing turmoil and dysfunction would prevent the conservation district from carrying out its duties, Hennepin County withdrew all funding from the district in 2003 and took over many of its duties.

Several people we interviewed in the metropolitan area suggested that SWCD board members should be appointed rather than elected because the election in highly populated counties is nothing more than a lottery. They contend that the races have low visibility and candidates do not have the funding to inform the large numbers of voters about their qualifications and ideas. In the most populous counties, the barriers to adequate voter education are particularly large. Each candidate for the Hennepin SWCD appears on the ballot in part or all of 32 legislative districts. On the other hand, some people that we interviewed argued that there were advantages to having a separately elected board. SWCDs with an elected board are independent of the county and may be better able to interact with the landowners who elected them.

Eliminate WMOs

As we discussed in Chapter 1, WMOs exist only within the seven-county metropolitan area. The 1982 Metropolitan Surface Water Management Act requires that all land within those counties be under the jurisdiction of a WMO or a watershed district.[9] Previous studies have found that WMOs are generally less effective than watershed districts.[10] While our study did not closely examine all WMOs in the metropolitan area, our observations were generally consistent with these earlier studies.

The Legislature may want to replace watershed management organizations with watershed districts.

The Legislature could eliminate the WMO model, replacing all WMOs with watershed districts. This would simplify the system by mandating only one organizational type. Critics of joint powers WMOs contend that they are weaker than watershed districts because they are governed by a joint powers board, which is subject to parochial infighting. These critics contend that some WMO board members vote in the interest of the city or township that they represent rather than in the interest of the overall watershed. Because counties appoint the boards of the watershed districts, the converted organizations would potentially be less prone to such internal conflicts.

However, a wholesale elimination of all WMOs may not be a good idea. It would eliminate not only the struggling WMOs but also effective WMOs, such as the Bassett Creek Watershed Management Commission (see Appendix A3). Another approach would be to lower the threshold for disbanding poor performing joint powers WMOs. Under current law, if a joint powers WMO fails to implement a watershed management plan in accordance with BWSR rules, BWSR can effectively terminate the WMO by forcing the county to

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[9] *Minnesota Statutes* 2006, 103B.231, subd. 1.

[10] Kathryn Joanne Draeger, *Defining and Evaluating Watershed Organizational Effectiveness* (A doctoral thesis submitted to the University of Minnesota, September 2001), 55, 58, and 106-110; and Washington County, *Report for Water Governance Study, Washington County, Minnesota* (Stillwater, 1999), 20, 23-24, and 33.

assume its management or turn it into a watershed district.[11] However, because BWSR has not set clear standards for performance, its ability to declare that a WMO is not implementing its plan is somewhat ambiguous. BWSR's rules do not define what non-implementation means. As an alternative to eliminating all WMOs, BWSR could more clearly indicate that weak performance by WMOs would be grounds for county takeover or replacement by a watershed district.

In addition, the weak performance of WMOs may not be entirely due to the joint powers organizational structure itself. It may have more to do with how they were created. Unlike joint powers organizations in outstate Minnesota, which were created at the initiative of the local entities that comprise the organization, the state created some of the joint powers WMOs from the "top down" with the passage of the Metropolitan Surface Water Management Act.[12] The state-created WMOs may struggle because they lack local commitment to watershed management. In contrast, the Bassett Creek Watershed Management Commission, a locally-created WMO, has been successful. This WMO was created long before the Metropolitan Surface Water Management Act by local officials who saw the need for an effective organization to address an identified water management problem. (See Appendix A3 for more details on Bassett Creek.)

Consolidation at the Local Level

One of the characteristics of Minnesota's current watershed management system is a complex network of authorities that have jurisdiction over the same geographic area. Counties, SWCDs, WMOs, and watershed districts all make decisions that can affect the quality and quantity of water in a watershed. The watershed management functions of all of these separate entities could be combined into a single watershed-based local entity with regulatory and levy authority. Less ambitiously, the state could merge SWCDs into county governments.

Consolidation at the local level would simplify the current structure but create other management challenges.

The argument in favor of consolidation into a single local entity is that it would streamline local government, making it easier to understand, coordinate, oversee, and hold accountable. It would also centralize decision-making at the watershed level, creating an entity designed to balance upstream and downstream needs and preferences.

However, consolidation within watershed boundaries would also create a number of management and coordination challenges. Currently, in most parts of the state, water and land-use planning are both done at the county level. Under this option, water planning would be done on a watershed basis throughout the state, but land-use planning would likely remain a county function. Placing water management within a different type of jurisdiction than land-use planning would likely create new coordination issues.

Furthermore, although some federal environmental agencies have emphasized watershed-based management, the U.S. Department of Agriculture continues to

[11] *Minnesota Statutes* 2006, 103B.231, subd. 3b - 3c. If a WMO fails within Hennepin or Ramsey counties, a watershed district must be created. The county cannot take over the functions of the joint powers WMOs.

[12] *Minnesota Statutes* 2006, 103B.231, subd. 1.

administer its programs on a county basis. In most counties, the U.S. Natural Resources Conservation Service and SWCD offices are located in the same building and closely coordinate their activities. They frequently share office space, equipment, and even staff. If Minnesota were to carry out soil and water conservation activities on a watershed basis, this coordination and sharing could be lost or drastically reduced. This is important because our analysis shows that in 2005 the Natural Resources Conservation Service spent $63 million on water and soil related activities in Minnesota.

Merging SWCDs into counties would not present the same difficulties as consolidation into watershed jurisdictions. There is some precedent for merging SWCDs with counties in Minnesota. Six counties have functionally merged SWCDs into their government structure, and about half of Minnesota's counties already delegate their county water planning responsibilities to SWCDs.[13] However, a separate local entity with specific responsibility for conservation issues may increase the visibility of environmental issues at the local level. SWCD boards may be more likely to attract candidates with a strong environmental focus than county commissioner races. Furthermore, as noted above, independent SWCDs may be better positioned than county governments to reach out to local landowners.

Consolidation at the State Level

Consolidation at the state level would be difficult to achieve.

The interrelationships among the various state agencies responsible for water management in Minnesota are familiar to those who work full-time on water issues but are frequently confusing for citizens and legislators to navigate and understand. No single agency is responsible for the overall management of Minnesota's surface waters. Some people have recommended consolidation of all water-related programs into a single, state-level agency responsible for water policy. This would involve merging the separate water management functions now housed in BWSR, DNR, PCA, and Agriculture.

However, such an overhaul would be disruptive during the transition and cost the state considerable time and money. While a consolidated state management structure might provide better accountability, there is no persuasive evidence that it would clearly produce better outcomes in terms of improved water quality and reduced flooding. Furthermore, we found some examples of good coordination across state agencies but also found some examples of weak coordination within a single state agency. This suggests that consolidation into a single management structure does not automatically improve coordination.

Improved coordination might be achieved with far less disruption by simply devoting more resources to coordination, possibly by giving greater resources and statutory authority to the Environmental Quality Board (EQB). For example, the Legislature could require that water-related programs, activities, and budgets at the agency level conform to the state's water plan (which is prepared by EQB). However, there are practical disadvantages to such an approach. The current state water plan was not written with this purpose in mind. It focuses on broad, overarching goals and does not focus on issues of statewide oversight and accountability. Thus, it would be awkward to implement this requirement before the next water plan is developed.

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[13] The six counties are Cass, Faribault, Hennepin, Olmsted, Pipestone, and Rock.

A Report of the Governance and Financing Task Force for the Grass Lake Watershed Management Organization

15 November, 2011
Grass Lake Watershed Management Organization
Ramsey County, Minnesota

Recommendation: The Board of the Grass Lake Watershed Management Organization recommends remaining an independent organization and asking the cities of Roseville and Shoreview to institute a GLWMO specific stormwater utility fee to finance the improved organization rather than merging with either the Ramsey Washington Metro Watershed District or the Vadnais Lake Area Watershed Management Organization. The board finds that this option retains the greatest amount of local control over the waters of the Grass Lake Watershed. This option will also ensure that all resources gathered for watershed management in the Grass Lake Watershed will be used to address concerns that are directly relevant to the Grass Lake Watershed, and not put towards programs that are of little benefit to Grass Lake.

Task Force

Karen Eckman – Chair GLWMO Board
Steve Barrett – GLWMO Board Member
Jon Miller – GLWMO Board Member
Mary Kay Von De Linde – GLWMO Board Member
Chuck Westerberg – GLWMO Board Member
Jim Debenedet – Citizen Advisor
Joanna LaBresch – Citizen Advisor
John Moriarty – Citizen Advisor
Steve Solomonson – Citizen Advisor

A Report of the Governance and Financing Task Force for the Grass Lake Watershed Management Organization

Purpose

The Governance and Financing Task Force (Task Force) for the Grass Lake Watershed Management Organization (GLWMO) was convened on October 6, 2011 with the purpose of researching and recommending a future governance strategy for GLWMO, specifically whether GLWMO should merge with either Ramsey Washington Metro Watershed District (RWMWD) or Vadnais Lake Area Watershed Management Organization (VLAWMO) or if GLWMO should remain an independent organization with an improved financing strategy.

Process

After the first meeting, analysis criteria were developed to focus the fact finding of teams studying RWMWD, VLAWMO and GLWMO. These criteria, with preliminary weighting and suggestions for measurement are shown in table 1. This set of criteria became the basis for further discussions about criteria and weighting at later meetings.

Criteria	Weight	Suggested Measures
Program Effectiveness	14.13%	Score of High, Medium, Low
Monitoring Capability	13.52%	Number and Frequency of Waterbodies Monitored
Education	13.20%	Frequency of Educational Programs
Success for Grants	9.35%	Ratio of Grants received to Grants Applied for, weighted by number of grants applied for
Outstanding accomplishments	6.98%	Number of Awards
Citizen Input	6.65%	Score of High, Medium, Low or No Input based on citizen interviews or survey
Local Control	5.92%	Score of High, Medium, Low or No Control based on interviews or survey of City Staff/Councils
Citizen Awareness	5.92%	Score of High, Medium, Low or No Awareness based on citizen interviews or survey
City cost	5.56%	Annual cost to cities through direct funding or program cost share with Watershed
Resident's cost	5.56%	Cost to residents through fees or taxes
Staff Number	3.89%	Number of FTEs
Staff retention	3.34%	Average Tenure of FTEs
Admin Cost (percent of budget)	3.10%	Percent of Annual Budget devoted to administration
Board Turnover	1.54%	Average Tenure of Board Members
Board Qualifications	1.34%	Score as High, Medium, Low or No Qualification required of Board Members

Table 1. Initial criteria and weightings used for fact finding

These criteria were assessed by each team through studies of the publications of the organizations including plans, budgets, websites and educational materials and through interviews with the organizations' administrators. After the relevant facts were gathered, board members met with the citizen advisors on the task force to refine the weighting of the criteria. First, some of the criteria determined to be irrelevant were eliminated. The criteria were weighted using a rank order process that resulted in a final set of criteria weighted as shown in table 2.

Criteria	Weight
Program effectiveness	16.67
Monitoring Capability	14.77
Local Control	12.88
Education	12.50
Citizen Input	9.47
City cost (per city, No Cost =1)	8.33
Additional Resident's cost (per parcel)	6.44
Staff #	6.44
Grants Awarded	6.44
Staff Continuity	4.17
Board Continuity	1.89

Table 2. Final Criteria and weighting

Based on the facts gathered by each of the task force teams, the board members evaluated, with input from the citizen task-force members, each of the criteria for each alternative – RWMWD, VLAWMO and improved GLWMO – giving the alternatives scores of high (1), medium (.67) or low (.33) by consensus. Scores of .75 indicated a split in board opinions between high and medium. The weights were applied to the scores and they were summed for each alternative. The resulting scores (Table 3) became the basis for discussion when a motion was made to remain an independent watershed management organization. **It should be noted that the board intended the scoring of the alternatives to be a basis for discussion only, and it was never intended that the highest scoring alternative would necessarily be the recommended alternative.**

Relevant Characteristics of each Watershed Organization

Ramsey Washington Metro Watershed District

The Ramsey Washington Metro Watershed is a 56 square mile watershed that includes eleven lakes – among them the Phalen chain of lakes – and five creeks. Waters of RWMWD discharge into the Mississippi River. RWMWD has a staff of 15 full time employees with an average tenure of 10 years and a 5 member board appointed by the Ramsey and Washington county commissioners with an average tenure of 22 years. The district is funded with an ad valorem tax authority and its budget is about $7 million yearly. This tax assessment would amount to a roughly $50 average increase in the property taxes of GLWMO residents if a merger were pursued. Part of the district's budget comes from grants: the district has received $3 million in grants over the past five years. The district is highly involved in monitoring its waters including using 10 automatic monitors for storm flow measurement and making water quality measurements of nine of the eleven lakes twice monthly through the open water months. Two staff members are charged with maintaining and analyzing the monitoring data. RWMWD engages in outreach and education through its website, an e-newsletter, Waterfest – an annual family event, and outreach in the schools and local communities. The district constantly monitors its programs for effectiveness in its annual Signs of Success document. The district is involved in a Best Management Practices (BMP) cost share program – similar but on a larger scale than the BMP cost share in GLWMO. They also undertake much bigger capital projects, for example the stormwater volume reduction project at Maplewood Mall, and maintain the Beltway Interceptor stormwater system.

Vadnais Lake Area Watershed Management Organization

The Vadnais Lake Area Watershed is a 25 square mile watershed that includes eleven major lakes. Among them is Vadnais Lake, which is a drinking water reservoir for St. Paul Regional Water Services. VLAWMO has a staff of three full time employees with an average tenure of six years, and they are in the process of hiring a full time education coordinator. The board consists of six members, each a member of one of the six city councils that are signatories to the VLAWMO Joint Powers Agreement. The average board tenure is greater than four years. The organization is funded with a utility fee and its budget is about $430,000 yearly. This utility fee would amount to a roughly $25 average increase in fees paid by GLWMO residents if a merger were pursued. Part of the organization's budget comes from grants: the organization has received several grants in recent years ranging from $6,000 to $50,000. The organization is highly involved in monitoring its waters and makes water quality measurements of the eleven lakes and six locations on Lambert Creek twice monthly through the open water months. VLAWMO engages in outreach and education through its website, three major workshops a year, joint classes with GLWMO and participation in Blue Thumb. The organization pursues projects in line with its watershed management plan. These projects are of a smaller scale than some of those pursued in RWMWD, with their budgets indicating that none exceed $150,000 per year. These projects focus on shoreline and creek restoration – similar in nature to the projects traditionally undertaken by GLWMO.

Grass Lake Watershed Management Organization

The Grass Lake Watershed is a nine square mile watershed that includes seven major lakes and many smaller wetlands and ponds. Among them are Owasso and Snail Lakes, which significant regional recreational lakes. GLWMO currently has a staff of one part time administrator, though the organization intends on retaining or hiring two full time employees following state approval of the Third Generation Watershed Management Plan. The board consists of five members appointed by the city councils of Roseville and Shoreview. The average board tenure is two years. The organization is funded with stormwater utility fees from Roseville and Shoreview, and its budget is about $150,000 yearly. To fund projects necessary to meet state mandates, GLWMO is asking to implement a utility fee specific to residents of the Grass Lake Watershed. This utility fee would amount to a roughly $25 average increase in fees paid by GLWMO residents. The organization has received one $32,000 Legacy Fund grant to construct a stormwater bio-infiltration project as part of a road maintenance project on Roseville's Aladdin Street. The organization's involvement in water quality monitoring is inconsistent, and monitoring has been done by the cities or county in the past. As an improved organization, GLWMO will take a greater role in monitoring its waters, monitoring five lakes once per month during open water and reporting on eight lakes (the three largest lakes still being monitored by the county). GLWMO conducts two workshops per year and three joint classes with VLAWMO. As education will be a priority for an improved GLWMO, the organization intends to hold eight education programs yearly in the future, improve its website, and pursue outreach through the member cities. The organization pursues projects in line with its watershed management plan. These projects are the smaller scale than some of those pursued in RWMWD, and focus on shoreline restoration and stormwater infiltration through cost sharing with private land owners for construction Best Management Practices and coordination with public works projects in the member cities. An improved GLWMO will expand the implementation of these projects and pursue some larger shoreline restoration and stormwater infiltration projects.

Result of the Criteria Scoring

When the board members scored the criteria for each alternative, based on the characteristics of each organization described above, the alternatives scored very close ranging from 82.1 on a scale of 100 to 89.9. VLAWMO was the highest scoring alternative due to its combination of high program effectiveness and relatively high local control (compared to RWMWD). RWMWD, while scoring well in program effectiveness, monitoring capability and education, scored low in both local control and cost to residents. GLWMO scored slightly lower than RWMWD predominantly on slightly lower scores in program effectiveness and monitoring capability that were the result of a concern by a board member about future effectiveness of GLWMO (described below under Points of Debate among the Board). This scoring highlighted the relative strengths and weaknesses of each alternative, and became the basis for discussion among the board members about which option to recommend.

Criteria	**Weight**	**GLWMO IMPROVED**	**VLAWMO**	**RWMWD**
Program effectiveness	16.67	0.75	1.00	1.00
Monitoring Capability	14.77	0.75	1.00	1.00
Local Control	12.88	1.00	0.67	0.33
Education	12.50	1.00	1.00	1.00
Citizen Input	9.47	0.67	0.67	0.67
City cost	8.33	1.00	1.00	1.00
Additional Resident's cost (per parcel)	6.44	1.00	1.00	0.33
Staff #	6.44	0.67	0.67	1.00
Grants Awarded	6.44	0.67	1.00	1.00
Staff Continuity	4.17	0.67	1.00	1.00
Board Continuity	1.89	0.33	0.67	0.67

Criteria	**Weight**	**GLWMO IMPROVED**	**VLAWMO**	**RWMWD**
Program effectiveness	16.67	12.5	16.66667	16.66667
Monitoring Capability	14.77	11.07955	14.77273	14.77273
Local Control	12.88	12.87879	8.628788	4.25
Education	12.50	12.5	12.5	12.5
Citizen Input	9.47	6.344697	6.344697	6.344697
City cost (per city, No Cost =1)	8.33	8.333333	8.333333	8.333333
Additional Resident's cost (per parcel)	6.44	6.439394	6.439394	2.125
Staff #	6.44	4.314394	4.314394	6.439394

Grants Awarded		6.44	4.314394	6.439394	6.439394
Staff Continuity		4.17	2.791667	4.166667	4.166667
Board Continuity		1.89	0.625	1.268939	1.268939
Sum			82.12121	89.875	83.30682

Table 3. Scored criteria and sums for each possible alternative

Citizen Concerns

Cost

One citizen voiced the concern that fees or taxes collected by VLAWMO or RWMWD would fund projects that would not benefit residents within the boundaries of GLWMO. The Beltway Interceptor stormwater infrastructure of RWMWD in St. Paul was given as an example of an expensive program whose benefits would not be readily seen by GLWMO residents.

Future Flexibility

One citizen voiced the concern that if GLWMO underwent a merger, this action could not be reversed in the future if it were found to be ineffective. However, were GLWMO to remain an independent organization it could reconsider the option of merging in the future.

Points of Debate among the Board

Local Control

The difference in the level of local control among the three organizations was clear: RWMWD, being county appointed, had the least local control; GLWMO, being appointed by Roseville and Shoreview City Councils, had the most local control; and VLAWMO, having six other members in a Joint Powers Agreement, had moderate local control. The focus of the debate on local control was on its weight as a criterion for recommending an alternative. The majority view was that local control should be heavily weighted because an organization with greater local control will use its resources more on addressing the needs of water bodies within the current boundaries of GLWMO. The minority view was that local control should be less heavily weighted because greater local control leads decision-making to be driven more by cost concerns than by benefit concerns.

Program Effectiveness

All board members agreed that program effectiveness was the most important criterion in making a recommendation. There was also agreement that both RWMWD and VLAWMO have high levels of program effectiveness. The focus of the debate on program effectiveness was on the ability of an improved GLWMO to achieve high levels of program effectiveness. The majority view was that with an improved financing strategy and a reasonable scope of activity focused on four program areas that address water quality – Education and Outreach, Monitoring, Technical Support, and Cost-Share Incentive – GLWMO can be highly effective as an organization in the future. The minority view was that since GLWMO has not had higher levels of program effectiveness in the past and since economies of scale led GLWMO to contract for services with VLAWMO and RWMWD in the past and GLWMO is still discussing contracting with these organizations for services, GLWMO on its own cannot be as highly effective as RWMWD or VLAWMO and economies of scale favor a merger.

Conclusions

The Board of the Grass Lake Watershed Management Organization recommends remaining an independent organization and asking the cities of Roseville and Shoreview to institute a GLWMO specific stormwater utility fee to finance the improved organization[1]. The board finds that this option retains the greatest amount of local control over the waters of the Grass Lake Watershed. This option will also ensure that all resources gathered for watershed management in the Grass Lake Watershed will be used to address concerns that are directly relevant to the Grass Lake Watershed, and not put towards programs that are of little benefit to Grass Lake. Further, the board believes that an improved GLWMO can achieve high program effectiveness. This will be done first and foremost by focusing the organization on addressing surface water quality through four programs: Education and Outreach, Monitoring, Technical Support, and Conservation BMP Cost-Share Incentives. This limited scope is a result of recognizing that GLWMO will remain a small watershed with a small resource base. The board will convene a Citizen's Advisory Committee (CAC) and a Technical Advisory Committee (TAC) to help GLWMO stay abreast of emerging concerns in the watershed. The board plans to retain consultant expertise in the equivalent of two full time employees to assist with technical consulting and project management. These concrete steps will help GLWMO become a highly effective organization while maintaining local control.

Acknowledgements

A special thanks to Jim Debenedet, Joanna LaBresch, John Moriarty and Steve Solomonson – the citizen advisors on the task force for their indispensible help on gathering facts and focusing the decision making process of the board.

[1] The board chose to recommend the option that scored the lowest in analysis of the criteria. This should not be considered odd, when it is understood that this option scored lowest because of the concern of one board member about the future effectiveness of the organization. Had there been consensus about the future effectiveness of GLWMO and the criteria of program effectiveness and monitoring capability been scored 'high' GLWMO would have emerged as the highest scoring alternative. Since this concern about effectiveness was a minority view, it was outvoted in the final decision for recommendation.

James DeBenedet
808 Millwood Ave.
Roseville, MN 55113
November 16, 2011

Ms. Karen Eckman, Chair, GLWMO Board
666 Cobb Road
Shoreview, MN 55126
By email attachment

Re: GLWMO Finance and Governance Report

Dear Ms. Ekman,

I have read *A Report of the Governance and Financing Task Force for the Grass Lake Watershed Management Organization*, which I will hereafter refer to as the report. I also attended all task force meetings and provided significant research results input to the task force process.

I disagree with the conclusions and recommendations of the report and am just as troubled by the lack of integrity of the task force process as the project ended at our meeting on November 4th. My main objections are detailed below.

Premature Dismissal of the Task Force

The task force was established to assist the board in the analysis of alternatives and the selection of criteria for ranking alternatives and making a final decision on the future financing and governance of the GLWMO. The original task force solicitation cited goals of improving clean water stewardship and making sure public money is efficiently and effectively spent.

At the beginning of the November 4th meeting, Vice Chair Westerberg announced that the evaluation criteria agreed to at the previous meeting were unsatisfactory and needed reconsideration. He also informed the task force that only board members would vote on the revised criteria and on the final scoring.

In my opinion, this was done to limit voting to those board members who wanted to guide the process to a predetermined result. In any event, it is my desire, under the circumstances that my name be removed from the final report since I had no involvement in the final criteria selection and ranking or the final scoring and decision and I think the end product does not meet the original project goals.

Definition of Improved GLWMO

There is no explanation in the report nor was there much discussion at our meetings of what an improved GLWMO would be or how it would be accomplished. There was some reference to hiring two more employees or consultant employees to achieve improved results. However this was not fully explained in the report and I believe the board does not know what these employees would do, what their job descriptions would be or what their salient qualifications would be. Critical expertise in managing programs, environmental monitoring and reporting, public education, and other tasks could be contracted through other agencies, but this could be expensive and subject to the availability of such people through their employers. In other words, their employers will set their priorities and these may not align with the needs of the GLWMO.

In my opinion, the whole concept is fuzzy and not understood by this board. Finally, the cost of this improvement was never discussed in our meetings and not reported in the final report.

Cost Estimating for the Improved GLWMO and Other Alternatives

The cost of an improved GLWMO is too low by your own estimates and is not reported accurately in the report. The report reports these cost to residential properties in GLWMO as $25 per year. Yet I was provided with a spreadsheet that shows an annual charge of $25.32 per residential equivalent raises $263,000 per year to fund GLWMO. By all reports, this is inadequate to fund the draft plan which is undergoing reviews. That same spreadsheet shows an annual fee of $32.32 raising $314,000 to adequately fund the program listed in your draft plan.

In addition, as stated above, an improved GLWMO will hire two FTE staff to improve programs, monitoring and education. If these are professional staff with good water resource backgrounds and with benefits, this could easily add $200,000 to the cost of managing the improved GLWMO. Also, the draft plan relies on outside additional funding by the cities to support the plan. This was not included in the alternatives evaluation as a city cost and is not likely to be funded without reliance on the new charges.

In short, the improved GLWMO will, in my estimation, require an annual property owner fee of about $50 per single family home or equivalent.

Weakness of *GLWMO Governance and Local Controls*

The board revised the evaluation criteria at the November 4th meeting to increase the weight of local control. The point of this is to give weight to the value of local property owners' voices in the GLWMO. I believe the report explains the rationale on this well enough. However, the issue of local control is subject to interpretation, but in the end, the failure to be true to the task force process and the other weaknesses of the report show this board is not up to the task before it.

The board has had ample opportunities over time to improve its function as an advocate for protection of the water resources. It could be said the problem is one of funding, but if the board were effective, it could have effectively argued for increased funding or a separate and adequate funding source. It has not and only now, claims that it will do better if provided with more money.

The process was not managed well. The time frame for this project was inadequate to allow all of the research and discussion that was required. Even though the board began discussions of alternatives earlier this year, the task force was kicked off in October with a deadline of November to produce a final recommendation. This was not adequate and the board should have realized the shortcomings of the project timeline and either started earlier or proposed a strategy to continue the project to a realistic deadline allowing time for research and full discussion of the alternatives.

The board has suffered from a lack of tenure. The current board tenure averages about two years. I do not know the reason for the lack of longer term board members, but this causes concern. While I have no doubt that individual board members are committed and capable, the overall lack of longer term members is an indication of a lack of commitment and effectiveness of this board and by extension, of the GLWMO.

Finally, the board showed its weakness by establishing a task force process and then not allowing the process to reach its conclusion when it became evident the task force might not render the desired outcome.

Alternative Recommendation

After consideration of the foregoing, I scored the three alternatives based on my assessment of the probabilities of success for each and concluded the merger with Ramsey Washington Metro Watershed District, RWMWD, was the best choice.

In my opinion, the board scored the probable effectiveness of the improved GLWMO too highly. By using the same table contained in the report, deleting all rows which scored equal to all alternatives and removing the local control criteria, I scored the three alternatives as shown in the table below.

Criteria	Weight	Improved GLWMO	Merge with VLAWMO	Merge with RWMWD
Program Effectiveness	16.67	11.2	16.7	16.7
Monitoring Capability	14.77	9.9	14.8	14.8
Education	12.5	8.4	12.5	12.5
City Cost	8.33	0	8.3	8.3
Staff Numbers	6.44	4.3	4.3	6.4
Board Continuity	1.89	0	1.2	1.2
Total Score		**34**	**58**	**60**

I didn't change the weight for each criteria, and since not all criteria are listed, the total does not add up to 100. Also, I filled in each box to the nearest 1/10 and the totals to the nearest whole number. Clearly, I have a perspective on this, but it is to have an effective and cost/effective watershed management organization regardless of its form or geographic basis.

I will attend the Roseville Council meeting on November 21st to present my views and answer council questions. I am sending this out by email due to the time constraints. I am asking that Tom Peterson forward it to the GLWMO board members and other task force members. I will send it to two other task force members who attended the November 4th meeting and may share my concerns regarding the process and the final report. I am sending it to Staff at the two cities so that they may share this letter with their councils and any other staff they believe relevant.

Sincerely,

James DeBenedet

Pc: Tom Peterson, GLWMO Administrator
Duane Schwartz, Roseville Public Works Director
Mark Maloney, PE, Shoreview Public Works Director

MARK MALONEY - Re: Jim DeBenedet Letter regarding GLWMO

From: <Sdsolomonson@aol.com>
To: <mmaloney@shoreviewmn.gov>
Date: 11/16/2011 4:31 PM
Subject: Re: Jim DeBenedet Letter regarding GLWMO
CC: <sandymartin444@gmail.com>

Mark and Sandy,

Jim DeBenedet sent a letter in regards to the GLWMO task force. I was also a task force member and attended all the meetings and subteam meetings. There are some points to Jim's letter that I agree with. The time-line was very aggressive. We had less than a month to complete a lot of work. The process was not well documented in the final report.

Process

The board adopted my recommendation on a process to use to try and pick the best solution, or at least to compare them. I recommended a process of agreeing to criteria for comparison, weighting the criteria using AHP process (Analytic Hierarchy Process), and to accumulate information sufficient to rate each possibility by forming subteams. The work of each subteam would be used as inputs to a decision matrix.The reason AHP is used is that people have a hard time comparing lists of things, but can make pairwise comparisons easier. For example, the eye doctor uses AHP all the time: Is 1 better or 2? By going through half the comparisons in the list, a weighting can be made. The tools work well in getting open discussions and to come to consensus. I assisted in the process of determining the weighting factors and later a facilitator was brought in to continue the approach. Three subteams were formed to answer questions on the 12 different criteria. I believe some of the lower weighted criteria were removed. I was on the subteam to evaluate the current GLWMO and to recommend an improved GLWMO. Karen, the chair was also on the subteam.

Considering the time-frame, a lot of information was accumulated. Time permitting, we could have accumulated much more. The process worked to create open discussion and to help board members and task force members to come to consensus. Initial discussions included the task force members and board members and subteams all had representation of board members and task force members. The one thing that was missing from the process was an open discussion of the weighting results and a discussion as to why members voted the way they did. The local control had the widest variability in votes. I recommended a discussion on that issue as half the people rated it very high and half rated it very low. The facilitator agreed with my assessment about local control. The remaining criteria had an almost unanimous agreement. A decision was made to have an open discussion on local control at the next meeting. After the discussion, and a presentation by Len Ferrington, it became evident that local control should be weighted higher. The acting chair at the last meeting decided to have the board reweight the criteria and to score each criteria for each of the three scenarios. . After changing the weighting, and recasting the votes, the GLWMO was lowest, but looking at the reason for the difference made the board agree that there really wasn't a huge difference between all three scenarios. The major discussion points were along the line that if they recommended a change and it didn't work, it would be hard to go back. The improved GLWMO should be given a chance and if it doesn't work a decision could be made later on to change to one of the other two options. The major concern the board had about losing local control is that our projects may be low priority compared to the larger watershed district and members of GLWMO could possibly be subsidizing other projects outside of their watershed.

The tool worked in that the board had discussions.. The final vote was 3:1 to recommend keeping GLWMO and improving it or staffing it and funding it properly.

My experience as a task force member was very good. My first impressions were that the board didn't know what they were doing. However, the tools I encouraged them to use caused a lot of discussion and my opinion changed after several meetings. In the end, the board acknowledged the task force members work and made their recommendations on the work we did and on open discussions.

In terms of making a recommendation. I believe that is and should be up to the board. I agree with the final approach to have the board make the determination as to the final recommendation. We had limited time, and consensus with a large group is very hard to come by.

Weakness of the process
* not enough time was given to the task force
* report was written by one board member with the blessing of the other 3. The task force members were not given an opportunity to recommend changes or to critique it.

Strengths of the process
* everyone participated in the process
* the process worked on getting a consensus and open discussion
* subteams were formed to be more efficient due to the aggressive time-line
* I believe the whole process was completed in roughly 4 weeks with 2 subteam meetings, and 3 group meetings.

Recommendations
I'm comfortable with the process and the recommendation of the board members. I feel that any of the three scenarios has benefits. The conservative approach is to stay with GLWMO as the board recommended and to reassess the progress at a later date.

Thank you for the opportunity to serve on the task force. I would be glad to answer any questions either of you may have.

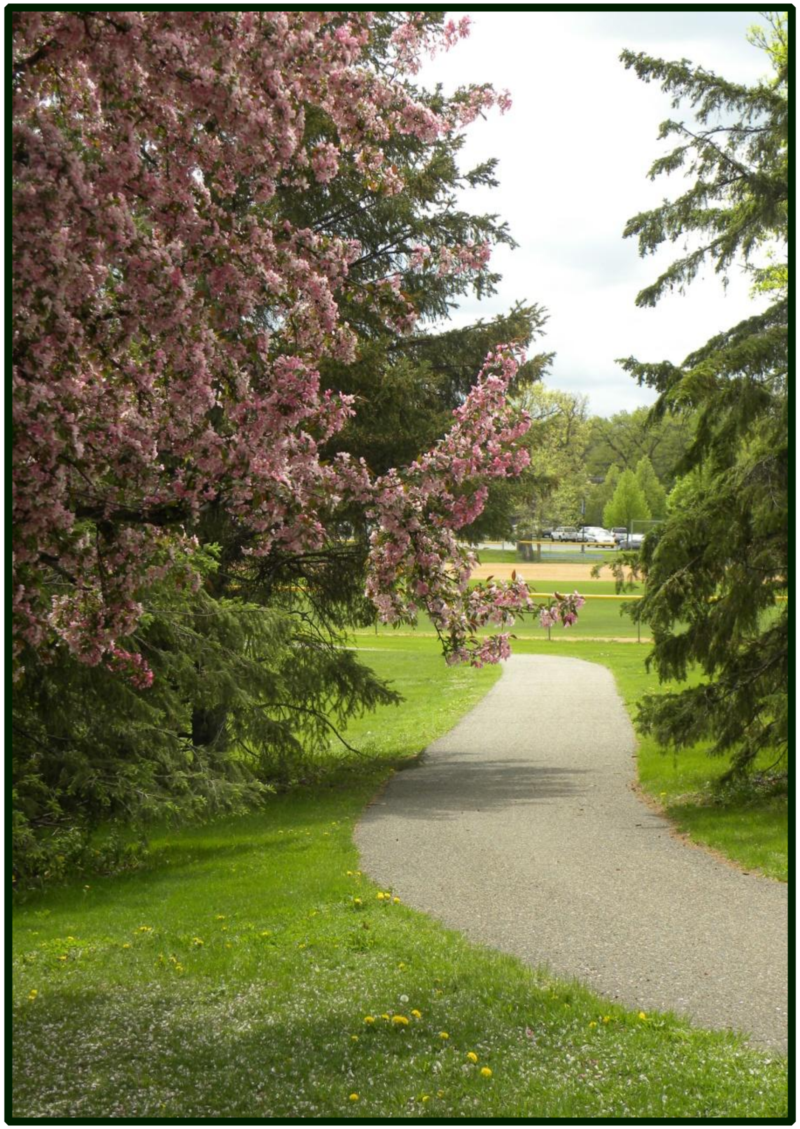
Sincerely,

Steven Solomonson

attatchment; Jim's letter.

In a message dated 11/16/2011 3:06:19 P.M. Central Standard Time, jdebenedet@msn.com writes:

> All,
>
> I am sending my letter, which I titled a minority report. At this point it is a minority of one, but I think there are others who may share some or all of my concerns. In any event, it is here for your information and I think it speaks for itself.
>
> Jim DeBenedet
> =



Five-year Operating Plan

Including fund-specific
working capital targets

City of Shoreview, Minnesota

December 2011

Prepared by Department of Finance

EXECUTIVE SUMMARY

Introduction

Long-term financial planning has been a part of the normal business process in Shoreview for more than two decades. It started in the late 1980s with a street replacement plan, and expanded into a comprehensive infrastructure replacement policy by 1992. Through the City's annual Comprehensive Infrastructure Replacement Plan (CHIRP) the City routinely updates capital replacement estimates for a minimum of 40 years; identifies revenue sources to support capital costs; and evaluates the impact of capital costs on inter-fund charges, property tax levies and user fees. The CHIRP policy ensures that capital replacement planning remains a vital and ongoing effort.

Beginning in 2009 Shoreview expanded its long-term financial planning efforts to include a Five-year Operating Plan (FYOP), and will adopt its first biennial budget in December of 2012 (for calendar years 2012 and 2013).

This Five-year Operating Plan (FYOP) document contains 3 years of history for each fund, a revised estimate for the current year (2011) and projections for the next 5 years (2012 through 2016). The document also:

- Provides a comprehensive summary and strategy for each fund
- Serves as a supplement to the Biennial Budget, Capital Improvement Program (CIP), and CHIRP
- Estimates potential debt issuance
- Determines necessary tax levy support
- Evaluates future changes in user fees
- Measures the impact of capital projects on operating budgets
- Outlines fund balance goals (an important component of financial stability)
- Predicts fund performance
- Analyzes working capital levels (fund balances) and establishes working capital targets

These long-term financial planning efforts are important steps in protecting the financial flexibility and health of the City through policies that support decision-making, practices that prevent the use of one-time revenues to support ongoing operating expenses, analysis that considers long-term maintenance and operating costs when planning and evaluating capital projects, and document how the City implements its commitment to balanced operations where revenues support operating costs.

Whether these efforts are successful is reflected in how well the City:

- Adapts to changing conditions
- Avoids temporary solutions that cannot be sustained
- Responds to unanticipated events and challenges
- Supports operations with limited new development
- Ensures continuation of essential services
- Protects asset condition
- Navigates economic cycles
- Secures and maintains a high bond rating, thereby reducing borrowing costs
- Prepares for the future
- Moderates changes in tax levies and user fees
- Avoids short-term borrowing to support operations

Fund Balances

Management of fund balance levels is an important part of long-range financial planning, therefore a basic understanding about what fund balances are is helpful in order to understand fund goals. From an accounting perspective, fund balances are simply the difference between assets and liabilities. In general, fund balances give an indication of financial resources available to support ongoing operations. Historically, many terms have been used to describe fund balance, and Governmental Accounting Standards prescribe the use of different terms within the annual financial report. In addition, the terms are changing as financial reporting standards evolve. Some of the terms used now or in the past include: net assets, fund equity, and fund balance; and terms used to describe specific components may include designated, assigned, reserved, committed etc.

Regardless of the terms used, determining adequate fund balance levels can be a challenging task for both policy makers and management professionals.

Shoreview's fund balance goals are established considering the unique circumstances of each fund, with the goal of protecting the provision of City services to the public. Fund balance goals are stated as working capital targets, and are designed to:

1. Provide working capital for operations and capital costs
2. Develop protect financial flexibility
3. Preserve flexibility for unanticipated events

Working capital needs create special circumstances in some operating funds. For instance, property tax receipts in the General Fund provide 78% of total revenue, and are received twice per year (in July and December). Consequently, the General Fund supports ongoing operations for nearly 6 months of the year before the first receipt of its largest revenue source. In this case, fund balances provide necessary working capital to avoid cash deficits and short-term borrowing. For the purpose of measuring working capital in this document, fund balances are evaluated by the number of months or years of operating coverage. This calculation includes operating and debt service costs, and may also include capital outlay and transfers to other funds if they have a significant impact on the fund.

Financial flexibility provides benefits such as financing a portion of capital costs without borrowing, providing interest income for operating and capital funds, and insulating the City from temporary revenue shortfalls or unexpected one-time costs. These benefits help the City moderate changes in levies and user fees over time, and protect service levels from cuts dictated by one-time events.

Unanticipated events or emergencies can create temporary cash flow challenges for a City. Recent examples for Shoreview include state aid cuts, emergency utility system repairs, community-wide cleanup associated with storm damage, extended periods of drought, sustained periods of heavy rainfall, and economic conditions/pressures.

Operating Assumptions

As stated earlier, the process of determining appropriate fund balances involves an examination of past performance as well as future operating projections. By understanding the challenges of the past and future, coupled with potential opportunities, a strong set of operating goals and objectives can emerge and guide decision-making.

Since any set of projections also employs the use of assumptions, it is important to note that projections were based on several key factors. These include actual contribution rates where known, industry estimates, anticipated contract changes, capital projections, expected debt issuance and inflationary factors. In general, costs were inflated between 0% and 10%. Some of the key assumptions used to assemble these projections include:

- No new development is projected in the next 5 years
- Population remains stable, with slight declines due to a reduction in residents per household
- Full-time wage adjustments are limited to 1% for 2012, 2% for 2013 and 2014, and a tentative estimate of 3% is used for 2015 and beyond
- Health insurance costs rise between 6.5 and 7% per year, and account for 20% to 30% of the rise in personal services annually
- Liability and workers compensation insurance premiums rise an average of 7% per year
- Most contractual costs are expected to rise between 0% and 3% per year, while police and fire contracts, central garage charges, fuel and utility costs are expected to rise between 3% and 8% per year
- Property values are projected to drop 4.6% for 2012, 2% for 2013, and hold steady for 2014 and 2015
- Modest property value increases of 2% per year are projected beginning in 2016

The format of this document includes a discussion for each fund, including a set of projections (in table form), graphs to help illustrate operating results, a brief narrative examination of past performance, and specific goals/targets tailored for the fund.

Levy, Value and Tax Rate Projections

A number of factors determine the final property tax bill, including the tax levies for each local jurisdiction, state aids and credits, levy limits, special levies, property values, metro-wide pooling of commercial/industrial values (known as fiscal disparities), and tax rates. This section provides a brief overview of these factors.

Property tax levies provide support for General Fund operations, general obligation debt, and capital funds. The table on the next page provides a four-year historical review of levy and value changes as well as consolidated predictions based on individual fund projections included in this document.

Homestead Market Value Exclusion (HMVE)—Beginning in 2012 the State of Minnesota replaced the Market Value Homestead Credit (MVHC) program with a Homestead Market Value Exclusion (HMVE) program, which excludes a portion of homestead property value from property taxes. The amount of excluded value is equal to 40% of the first $76,000 in home value, less 9% of the value over $76,000 but less than $413,800. No exclusion is given for homes above $413,800.

Home Value	Excluded Value	Percent of Value Excluded
$ 76,000	$ 30,400	40.0%
$ 100,000	$ 28,240	28.2%
$ 150,000	$ 23,740	15.8%
$ 200,000	$ 19,240	9.6%
$ 235,700	$ 16,027	6.8%
$ 250,000	$ 14,740	5.9%
$ 300,000	$ 10,240	3.4%
$ 350,000	$ 5,740	1.6%
$ 400,000	$ 1,240	0.3%
$ 413,800	$ -	0.0%

Levy Limits—During some years State statutes place restrictions on local government levies through levy limits. Although the City is not subject to a levy limit for 2012, it is important to note that Shoreview has levied below the maximum allowed levy in recent years. Shoreview's levy was $211,327 below the maximum for 2010 and $364,703 below the maximum for 2011.

Tax Levy—Even though the largest share of the tax levy is allocated to the General fund, over the last 8 years (since 2004) the General Fund share of the tax levy has declined from a high of 77% in 2004 to a low of 69% for 2012, while the combined debt service and capital share of the tax levy has risen from 23% in 2004 to 31% for 2012. This trend is expected to continue in the future due to increased repair and replacement costs.

Declining Values—Between 2004 and 2008, both market values and taxable values increased an average of 9.9% per year. Since 2008 the economic climate has resulted in declining property values, and further reductions are expected to continue through 2013. Preliminary information from the county assessor indicates that property values for 2012 taxes are expected to decline about 4.6%. The projections in this document assume that values will drop another 2% for 2013, hold constant for 2 years, followed by modest increases of about 2% per year.

Fiscal Disparities—The fiscal disparities formula, provided in State Statutes, takes 40% of the value of new commercial and industrial development in the metro area and redistributes the value back to each community based on a formula. The result is either a net gain or net loss in tax dollars from the pool.

Shoreview's share of the metro-wide fiscal disparities pool decreased in 2005 and 2006, most likely due to new construction at the Rice Creek Corporate Park. Shoreview's share of the pool has increased between .6% and 13.9% per year since 2006, and will decrease over the next two years.

Tax Rates—The tax rate measures the combined change in levies and values. Because values generally grew faster than the tax levy from 2005 to 2008, the tax rate dropped. Since values have dropped and levies have grown since then, the tax rate has risen each year since 2008. For the future, the expected decline in market values and the projected rise in the City's levy, result in higher tax rates. As market values begin to recover, the growth in the tax rate is expected to slow by the year 2016.

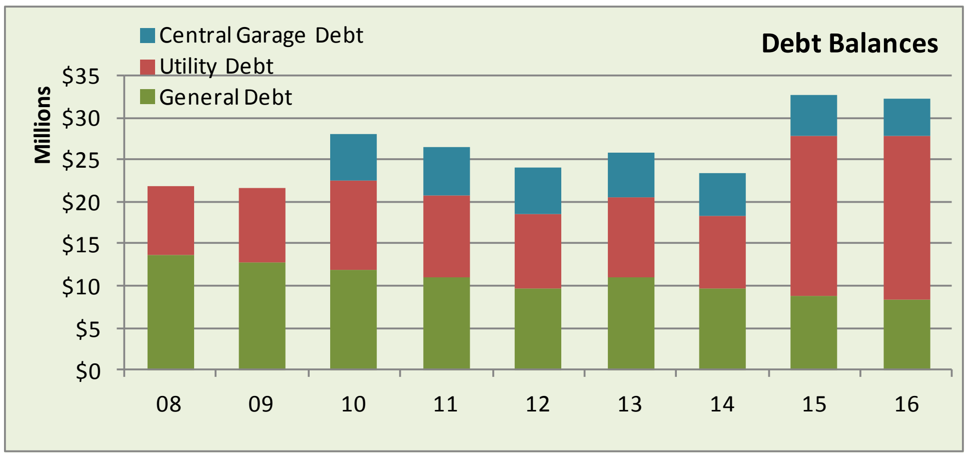
Levy and Value Projections	2008 Adopted	2009 Adopted	2010 Adopted	2011 Adopted	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Tax Levy									
General fund (net of lost MVHC)	$ 5,864,176	$ 6,017,590	$ 6,228,739	$ 6,345,734	$ 6,467,060	$ 6,717,037	$ 7,045,956	$ 7,348,064	$ 7,667,957
EDA	-	-	-	25,000	55,000	60,000	50,000	55,000	60,000
HRA	-	-	50,000	60,000	70,000	75,000	80,000	85,000	90,000
Debt-All Debt Funds (combined)	600,000	553,000	565,000	527,000	442,026	501,000	531,000	537,000	557,000
Debt-Central Garage Fund	-	-	-	98,000	216,000	184,000	184,000	208,000	208,000
Capital project-Street Renewal Fund	600,000	650,000	700,000	750,000	800,000	850,000	900,000	950,000	1,000,000
Capital project-General Fixed Asset Fund	1,000,000	1,050,000	1,100,000	1,150,000	1,200,000	1,250,000	1,300,000	1,350,000	1,400,000
Capital project-Capital Impr. Fund	120,000	80,000	90,000	100,000	110,000	120,000	130,000	145,000	160,000
Total Levy (net of MVHC loss)	$ 8,184,176	$ 8,350,590	$ 8,733,739	$ 9,055,734	$ 9,360,086	$ 9,757,037	$ 10,220,956	$ 10,678,064	$ 11,142,957
Market Value (millions)	$ 3,276.2	$ 3,198.3	$ 3,015.6	$ 2,838.6	$ 2,708.5	$ 2,650.0	$ 2,650.0	$ 2,650.0	$ 2,703.0
Taxable Value (millions)	$ 32.6	$ 31.4	$ 29.6	$ 27.6	$ 25.4	$ 24.9	$ 24.9	$ 24.9	$ 25.5
Fiscal Disparities/City	$ 655,967	$ 747,308	$ 832,802	$ 866,880	$ 838,214	$ 828,324	$ 885,364	$ 925,551	$ 988,865
Fiscal Disparities/HRA	$ -	$ -	$ -	$ 5,304	$ 5,407	$ 5,400	$ 5,400	$ 5,400	$ 5,400
Tax Rate/City	23.532	25.129	27.569	30.671	33.226	35.514	37.126	38.779	39.467
Tax Rate/HRA	-	-	0.169	0.198	0.254	0.279	0.299	0.319	0.332
Annual Change in City Tax Levy									
General fund (net of MVHC loss)	$ 94,572	$ 153,414	$ 211,149	$ 116,995	$ 121,326	$ 249,977	$ 328,919	$ 302,108	$ 319,893
EDA and HRA (combined)	-	-	50,000	35,000	40,000	10,000	(5,000)	10,000	10,000
Debt (all funds combined)	18,000	(47,000)	12,000	60,000	33,026	26,974	30,000	30,000	20,000
Capital project funds-replacements	200,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Capital project funds-improvements	40,000	(40,000)	10,000	10,000	10,000	10,000	10,000	15,000	15,000
Total Change in Tax Levy	$ 352,572	$ 166,414	$ 383,149	$ 321,995	$ 304,352	$ 396,951	$ 463,919	$ 457,108	$ 464,893
Percent Change/Tax Data									
Market Value	4.84%	-2.38%	-5.71%	-5.87%	-4.58%	-2.16%	0.00%	0.00%	2.00%
Taxable Value	4.67%	-3.56%	-5.67%	-6.74%	-8.07%	-1.90%	0.00%	0.00%	2.29%
Fiscal Disparities	13.31%	13.92%	11.44%	4.09%	-3.31%	-1.18%	6.89%	4.54%	6.84%
City Tax Levy (net of MVHC cuts)	4.50%	2.03%	4.59%	3.69%	3.36%	4.24%	4.75%	4.47%	4.35%
City Tax Rate	1.00%	6.79%	9.71%	11.25%	8.33%	6.89%	4.54%	4.45%	1.77%
HRA Tax Levy (net of MCHC cuts)				20.18%	21.25%	7.14%	6.67%	6.25%	5.88%
HRA Tax Rate				17.16%	28.28%	9.84%	7.17%	6.69%	4.08%

Combined Debt Projections

Balancing the use of current resources and bonded debt for financing capital projects is an important aspect of capital project and debt management. Maintaining stable revenue sources and sufficient fund balances allows the City to finance some projects internally, and therefore promotes flexibility.

Debt Balances—The graph below, and the table on the next page provides a consolidated summary of outstanding debt as of December 31, 2011:

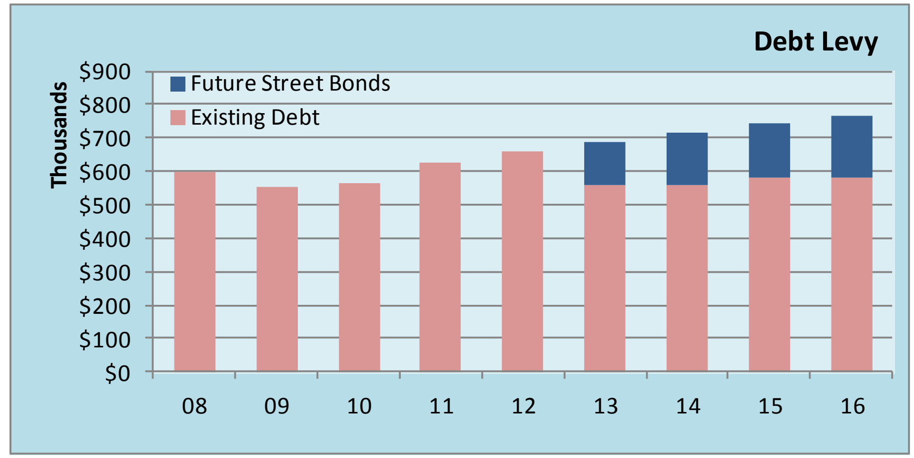
G.O. Improvement Bonds (assessments)	$ 1,350,000
G.O. Tax Increment Bonds	1,830,000
G.O. Capital Plan Bonds (fire stations)	1,075,000
G.O. Street Improvement Bonds (streets)	2,015,000
Certificates of Participation (comm. center)	4,620,000
G.O. Capital Plan Bonds (maint. center)	5,615,000
G.O. Revenue Bonds (utility systems)	9,935,000
Total Existing Debt	$26,440,000



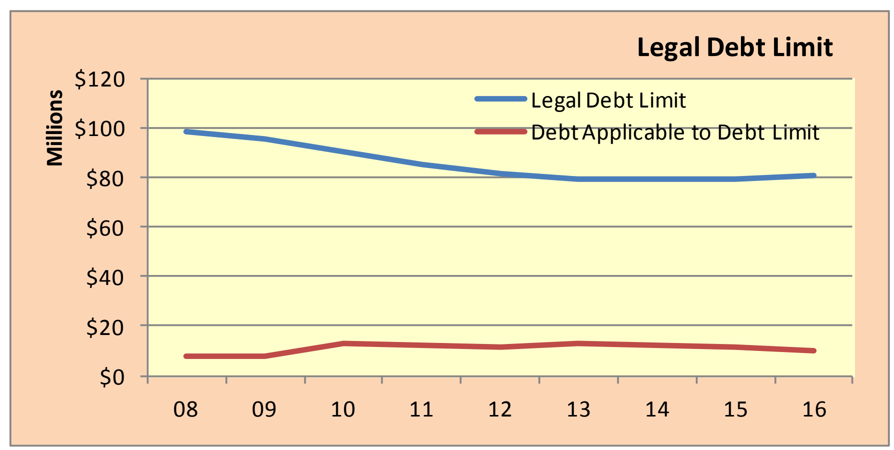
Projected debt issuance over the next 5 years includes:

G.O. Improvement Bonds (assessments)	$ 1,110,000
G.O. Street Improvement Bonds (streets)	2,500,000
G.O. Revenue Bonds (water treatment plant)	9,000,000
G.O. Revenue Bonds (utility systems)	5,130,000
Total Planned Debt	$17,740,000

Debt Levy—The debt portion of the tax levy supports principal and interest payments on general obligation bonds, including: fire station bonds, street bonds, and the tax-supported share of the maintenance center bonds. As shown in the graph below, the only planned increase in the debt levy is for future street bonds.



Debt Limit—Minnesota statutes limit the amount of debt a City may issue for general obligation purposes. Shoreview's current debt is 14% of the debt limit, leaving 86% available. Planned issuance of street bonds in 2012 will decrease the available margin to 83%, and as debt payments occur the margin will gradually increase. The stability of this favorable measure, even with projected debt issuance, provides an indication of Shoreview's financial flexibility (historically using debt to finance a relatively small share of the costs planned as part of the annual CIP).



Debt Related Projections	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Debt Balances									
General Obligation Bonds									
Improvement	$ 1,835,000	$ 1,765,000	$ 1,610,000	$ 1,350,000	$ 1,065,000	$ 1,215,000	$ 1,040,000	$ 1,210,000	$ 1,530,000
Tax Increment	2,845,000	2,510,000	2,180,000	1,830,000	1,320,000	690,000	350,000	-	-
Fire Stations *	1,360,000	1,270,000	1,175,000	1,075,000	975,000	870,000	760,000	645,000	525,000
Street Improvements *	2,435,000	2,300,000	2,160,000	2,015,000	1,865,000	4,210,000	3,925,000	3,630,000	3,320,000
Total General Bonds	8,475,000	7,845,000	7,125,000	6,270,000	5,225,000	6,985,000	6,075,000	5,485,000	5,375,000
General Obligation Bonds									
Maintenance Center *	-	-	5,615,000	5,615,000	5,515,000	5,270,000	5,025,000	4,775,000	4,520,000
General Obligation Revenue Bonds									
Water Improvement	5,210,000	4,895,000	5,710,000	5,250,000	4,700,000	5,125,000	4,710,000	14,095,000	13,860,000
Sewer Improvement	1,370,000	1,315,000	2,220,000	2,130,000	1,985,000	1,830,000	1,670,000	2,225,000	2,215,000
Surface Water Improvement	1,485,000	2,555,000	2,780,000	2,555,000	2,300,000	2,550,000	2,265,000	2,820,000	3,360,000
Total Utility Bonds	8,065,000	8,765,000	10,710,000	9,935,000	8,985,000	9,505,000	8,645,000	19,140,000	19,435,000
Total Bonded Debt	16,540,000	16,610,000	23,450,000	21,820,000	19,725,000	21,760,000	19,745,000	29,400,000	29,330,000
Community Center Expansion *	5,190,000	4,940,000	4,680,000	4,620,000	4,330,000	3,985,000	3,635,000	3,275,000	2,910,000
Total Combined Debt	$ 21,730,000	$ 21,550,000	$ 28,130,000	$ 26,440,000	$ 24,055,000	$ 25,745,000	$ 23,380,000	$ 32,675,000	$ 32,240,000
Debt Limit Information									
Market value in ensuing year (millions)	$ 3,276.2	$ 3,198.3	$ 3,015.6	$ 2,838.6	$ 2,708.5	$ 2,650.0	$ 2,650.0	$ 2,650.0	$ 2,703.0
Debt Limit Rate	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Debt Limit	$ 98,286,960	$ 95,948,310	$ 90,467,340	$ 85,157,310	$ 81,253,800	$ 79,500,000	$ 79,500,000	$ 79,500,000	$ 81,090,000
Debt Applicable to Debt Limit	$ 8,075,009	$ 7,611,185	$ 12,747,163	$ 12,450,595	$ 11,805,924	$ 13,211,099	$ 12,194,758	$ 11,201,807	$ 10,139,808
Debt Margin Available	$ 90,211,951	$ 88,337,125	$ 77,720,177	$ 72,706,715	$ 69,447,876	$ 66,288,901	$ 67,305,242	$ 68,298,193	$ 70,950,192
Percent Debt Margin Used	8.2%	7.9%	14.1%	14.6%	14.5%	16.6%	15.3%	14.1%	12.5%
Percent Debt Margin Available	91.8%	92.1%	85.9%	85.4%	85.5%	83.4%	84.7%	85.9%	87.5%
Debt Levy by Type of Debt									
Improvement -existing	$ 230,000	$ 198,000	$ 188,000	$ 150,000	$ 67,026	$ -	$ -	$ -	$ -
Fire Station-existing	145,000	145,000	145,000	145,000	143,000	143,000	143,000	143,000	143,000
Street Improvements-existing	225,000	210,000	232,000	232,000	232,000	232,000	232,000	232,000	232,000
Maintenance Center-existing	-	-	-	98,000	216,000	184,000	184,000	208,000	208,000
Sub-total Levies for Existing Debt	600,000	553,000	565,000	625,000	658,026	559,000	559,000	583,000	583,000
Street Improvements-future	-	-	-	-	-	126,000	156,000	162,000	182,000
Total Debt Levies	$ 600,000	$ 553,000	$ 565,000	$ 625,000	$ 658,026	$ 685,000	$ 715,000	$ 745,000	$ 765,000
Change in Debt Levies	$ 18,000	$ (47,000)	$ 12,000	$ 60,000	$ 33,026	$ 26,974	$ 30,000	$ 30,000	$ 20,000

Combined Debt Service Funds

Debt Service funds account for revenue dedicated for payment of debt as well as principal and interest payments (excluding debt accounted for in utility or internal service funds).

Impacts

- Revenue in support of debt payments for 2012 is derived from transfers in (64%), property taxes (28%), special assessments (7%) and interest earnings (1%)
- Transfers for debt payments are from the General Fund ($100,000), TIF #2/City Center Fund ($573,000), General Fixed Asset Replacement Fund ($180,000) and the Capital Improvement Fund ($165,000)
- Transfers to or from the Closed Debt Fund are intended to close out balances for retired debt ($1,490)

Performance/History

- Operating coverage equal to 10 to 14 months
- Advance refunding of the 2002 Certificates of Participation in 2011, saving more than $200,000 in interest costs on a net present value basis

Fund Goals/Targets

- Preserve a minimum of 6 months of operating coverage
- Hold General fund support for debt payments to $100,000 per year until retirement of the community center expansion debt, then reduce General fund support to zero

Debt Policy

Outstanding debt and the annual principal and interest payments are important long-term obligations that must be managed within available resources. This includes balancing debt levels, determining the timing for debt issuance, and managing the resources dedicated to debt payment.

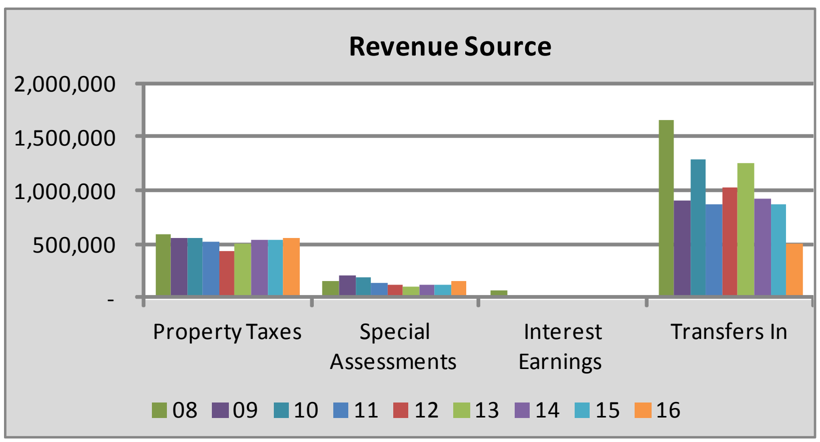
The issuance of debt is an important tool in financing large capital costs, and enables the City to balance the present need for capital spending with the benefit provided to existing and future citizens. If all capital costs were financed only through current revenue sources, the cost to current residents would represent an unnecessarily high burden, because assets that will serve the community well into the future would be paid for with fees and levies collected in the current year. Conversely, if all capital costs were supported exclusively by the issuance of debt, then debt balances rise to much higher levels, and interest costs take up a larger share of the operating budget. Therefore, balancing current resources and long-term financing is an important aspect of debt management.

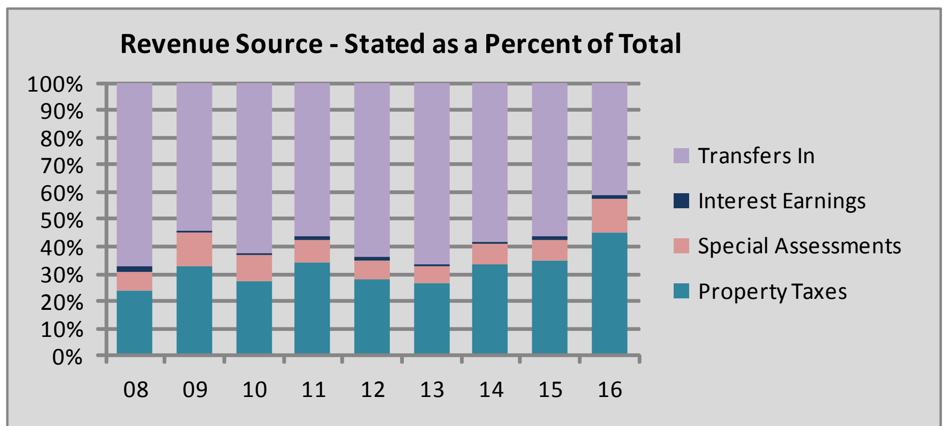
Shoreview's debt policy states that the City will:

- Remain in compliance with statutory debt limits
- Plan and direct use of debt so that payments are manageable
- Seek to maintain the highest possible credit rating without compromising the delivery of essential services
- Prepare long-term financial planning
- Take advantage of lower interest rates through debt restructuring when appropriate
- Provide developer assistance through the use of "pay as you go financing" in the form of tax increment financing (TIF) notes, and that TIF debt will be issued only for the construction of City assets and where a consistent and reliable revenue stream is identified in advance

The debt policy also addresses debt structure, professional advisors, and debt management practices (investment of proceeds, financial disclosure, arbitrage rebate and monitoring).

Debt Funds	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Property Taxes	$ 589,147	$ 547,952	$ 559,630	$ 527,000	$ 442,026	$ 501,000	$ 531,000	$ 537,000	$ 557,000
Special Assessments	157,872	206,003	198,783	132,222	115,865	107,971	116,129	118,931	158,933
Interest Earnings	60,424	18,869	6,503	17,800	17,850	19,050	17,850	17,105	15,750
Total Revenue	807,443	772,824	764,916	677,022	575,741	628,021	664,979	673,036	731,683
Expense									
Debt Service	2,321,827	1,650,527	1,632,081	1,796,164	1,743,547	1,718,741	1,641,448	1,611,889	1,266,396
Total Expense	2,321,827	1,650,527	1,632,081	1,796,164	1,743,547	1,718,741	1,641,448	1,611,889	1,266,396
Other Sources (Uses)									
Debt Proceeds	19,225	2,819	-	4,620,000	-	20,000	-	10,000	-
Debt Refunded	(1,085,000)	-	-	(4,410,000)	-	-	-	-	-
Transfers In	1,650,496	901,872	1,287,109	872,850	1,019,490	1,247,286	923,617	874,042	510,854
Transfers Out	-	(2,872)	(288)	(2,850)	(1,490)	(126,000)	(100,617)	(54,000)	(55,854)
Net Change	(929,663)	24,116	419,656	(39,142)	(149,806)	50,566	(153,469)	(108,811)	(79,713)
Fund Equity, beginning	2,373,964	1,444,301	1,468,417	1,888,073	1,848,931	1,699,125	1,749,691	1,596,222	1,487,411
Fund Equity, ending	$ 1,444,301	$ 1,468,417	$ 1,888,073	$ 1,848,931	$ 1,699,125	$ 1,749,691	$ 1,596,222	$ 1,487,411	$ 1,407,698
Fund equity percent of expense	87.5%	90.0%	105.1%	106.0%	98.9%	106.6%	99.0%	117.5%	110.4%
Months of operating coverage	10.5	10.8	12.6	12.7	11.9	12.8	11.9	14.1	13.2
Expense percent change	3.9%	-28.9%	-1.1%	10.1%	-2.9%	-1.4%	-4.5%	-1.8%	-21.4%
Average annual percent change				-3.4%					-6.4%
Tax Levy percent change	1.3%	-7.0%	2.1%	-5.8%	-16.1%	13.3%	6.0%	1.1%	3.7%
Average annual percent change				11.1%					1.6%



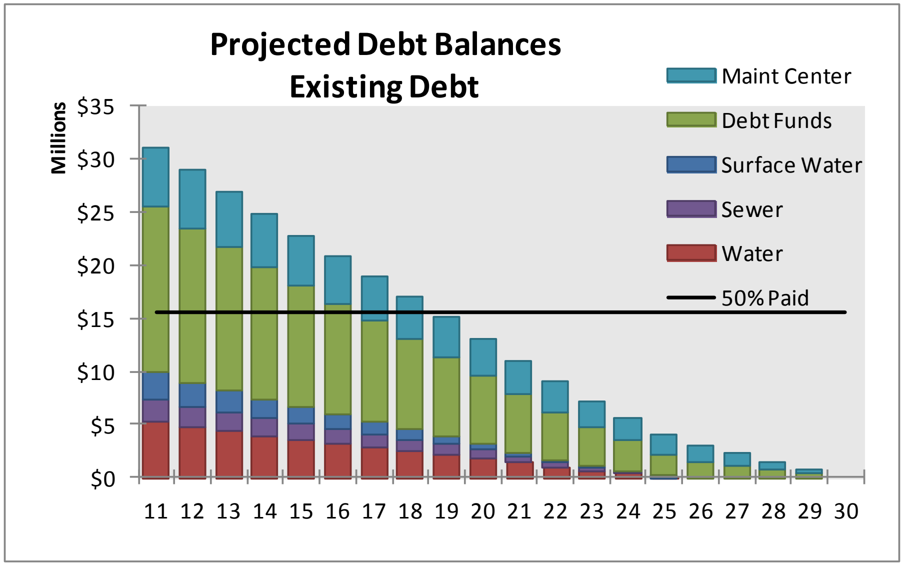


Debt Balance Projections

Over the next 6 years (by the end of 2017) approximately 40% of the City's current outstanding debt will be retired, and more than 65% will be retired within 10 years. This is considered a very favorable indicator by bond rating agencies.

General Obligation debt is retired at a slightly faster rate with 57% retired over the next 5 years and 90% retired within 10 years.

Enterprise (utility funds) and Internal Service (maintenance center) debt is retired over a slightly longer period due to the long-term nature of utility systems, and new debt issued in 2010 for maintenance center renovations.



	Debt Balances as of Year End						
Year	G.O. Water	G.O. Sewer	G.O. Surface Water	G.O. Maint Center	Debt Funds	Total All Debt	Percent Paid
2011	$5,250,000	$2,130,000	$2,555,000	$5,615,000	$15,550,000	$31,100,000	
2012	4,700,000	1,985,000	2,300,000	5,515,000	14,500,000	29,000,000	6.8%
2013	4,335,000	1,830,000	2,040,000	5,270,000	13,475,000	26,950,000	13.3%
2014	3,960,000	1,670,000	1,775,000	5,025,000	12,430,000	24,860,000	20.1%
2015	3,605,000	1,505,000	1,545,000	4,775,000	11,430,000	22,860,000	26.5%
2016	3,260,000	1,335,000	1,310,000	4,520,000	10,425,000	20,850,000	33.0%
2017	2,920,000	1,200,000	1,120,000	4,255,000	9,495,000	18,990,000	38.9%
2018	2,570,000	1,060,000	925,000	3,985,000	8,540,000	17,080,000	45.1%
2019	2,210,000	915,000	725,000	3,705,000	7,555,000	15,110,000	51.4%
2020	1,830,000	770,000	520,000	3,420,000	6,540,000	13,080,000	57.9%
2021	1,435,000	620,000	305,000	3,125,000	5,485,000	10,970,000	64.7%
2022	1,030,000	460,000	215,000	2,820,000	4,525,000	9,050,000	70.9%
2023	680,000	320,000	120,000	2,505,000	3,625,000	7,250,000	76.7%
2024	395,000	200,000	75,000	2,180,000	2,850,000	5,700,000	81.7%
2025	95,000	75,000	30,000	1,845,000	2,045,000	4,090,000	86.8%
2026	-	-	-	1,500,000	1,500,000	3,000,000	90.4%
2027	-	-	-	1,145,000	1,145,000	2,290,000	92.6%
2028	-	-	-	775,000	775,000	1,550,000	95.0%
2029	-	-	-	395,000	395,000	790,000	97.5%
2030	-	-	-	-	-	-	100.0%

Summary of Working Capital Targets

Depending on the timing of receipts for each fund, and the impact of debt payments and capital costs on cash flow, working capital targets generally fall into 4 different targeted levels. Governmental Funds maintain 5 to 6 months coverage if revenue is received semi-annually, and 3 months if revenue is received monthly or quarterly. Enterprise and Internal Service Funds maintain 6 to 8 months coverage, and 2 to 3 years if the primary expense for the fund results from insurance claims.

Fund targets are used when establishing tax levies and user fees during the budget process, and assist the City in determining how one-time revenues may serve the City to improve fund balances, or support one-time capital costs in an effort to reduce demands on permanent capital project funds. A more detailed description of the targets for each fund is provided along with the discussion of each fund, and a summary of working capital targets is provided in the table below.

			Actual			Estim.	Budget	
Fund	Basis	Target	2008	2009	2010	2011	2012	2013
General Fund	months	5.0	5.5	5.5	5.6	5.6	5.4	5.2
Special Revenue Funds								
Recycling	months	5.0	1.0	1.2	1.6	2.3	3.0	3.7
Community Center	months	3.0	1.9	2.4	3.0	3.6	4.0	3.8
Recreation Programs	months	3.0	2.4	2.9	3.9	4.3	4.5	3.8
Cable TV	months	3.0	11.5	9.6	8.2	7.6	7.9	7.8
EDA	months	5.0	21.9	8.7	2.2	3.8	4.8	6.4
HRA	months	5.0	n/a	n/a	2.7	5.0	7.8	10.3
Slice of Shoreview	months	6.0	0.8	3.3	7.4	7.4	7.2	6.8
Debt Funds (combined)	months	6.0	10.5	10.8	12.6	12.7	11.9	12.8
Enterprise Funds								
Water	months	8.0	13.7	14.7	14.0	11.7	10.4	13.4
Sewer	months	6.0	7.3	6.2	7.2	6.6	6.7	6.6
Surface Water	months	6.0	5.9	9.8	9.4	5.7	*2.6	5.1
Street Lighting	months	6.0	5.0	4.8	5.0	4.6	4.5	4.8
Internal Service Funds								
Central Garage	months	6.0	3.0	*0.9	6.6	7.2	9.0	9.7
Short-term Disability	years	3.0	6.4	6.6	6.5	6.5	6.5	6.5
Liability Claims	years	2.0	3.7	4.1	3.9	3.8	3.5	3.5

* Temporary decrease due to timing differences between debt proceeds and capital costs.

Summary

The remainder of this document contains 5-year projections for each operating fund. These estimates inform and help formulate the City's long-term strategies and influence development of the City's Biennial Budget (for 2012 and 2013). The financial planning strategies are intended to further develop and preserve Shoreview's financial resiliency, particularly during the current challenging economic climate, exert greater control over outcomes through each Biennial Budget, and will serve to:

- Deliver a consistent program of public services
- Maintain the trust and confidence of the citizens and business owners throughout Shoreview
- Preserve favorable comparisons to surrounding communities

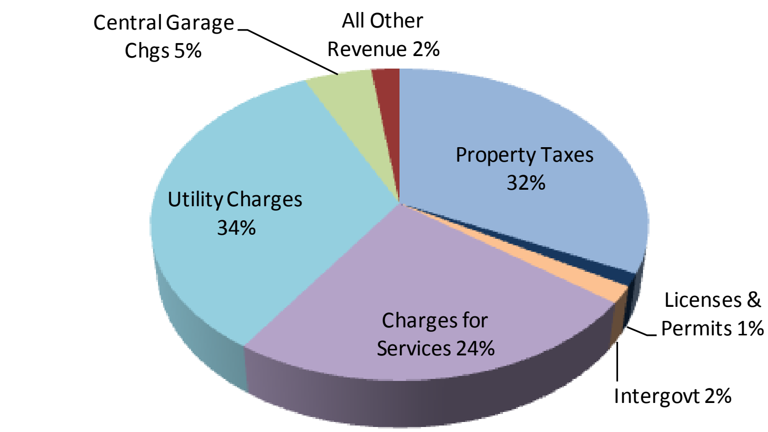
The FYOP is reviewed by the City Council as part of the budget process. Formal acceptance of the plan and adoption of the working capital targets occurs in December.

We thank all departments and the Shoreview City Council for their diligence and commitment to long-term planning.

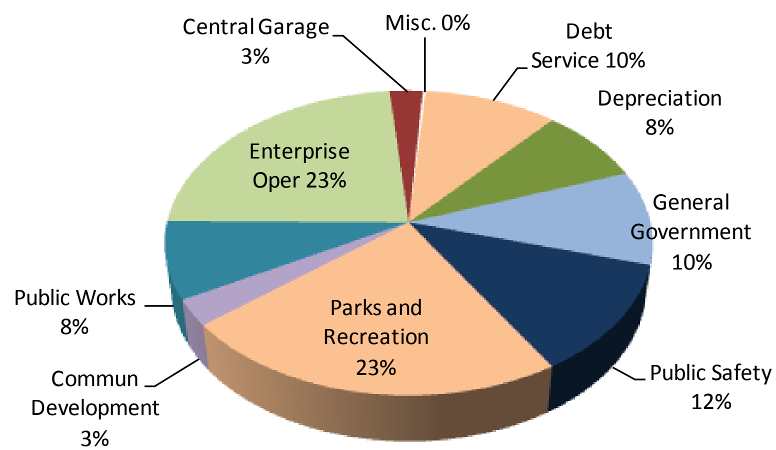
Jeanne Haapala, Finance Director
Terry Schwerm, City Manager

Total Operating Funds

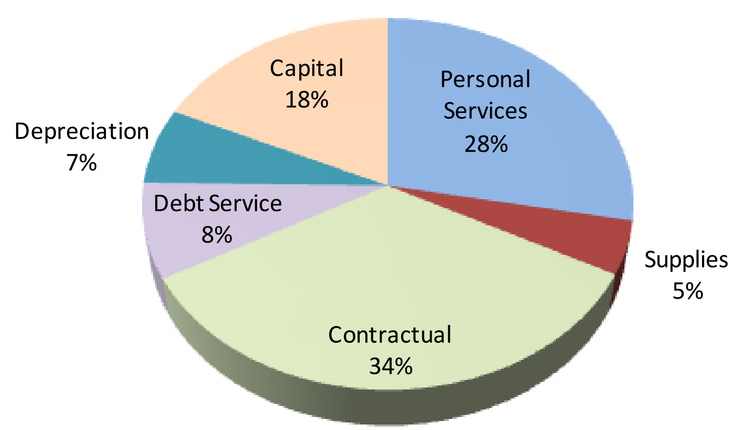
Combined revenue and expense for all operating funds is presented in the table below. Total expense (excluding capital project funds and transfers between funds) is projected to rise 3.9% over the 2011 revised estimate, and will rise between 2.5% and 3.8% from 2013 through 2016 (including increased debt service costs for the maintenance center addition and the proposed 2013 street bonds). It should be noted that the property tax totals in the table below do not contain tax levies for capital funds. For instance, the 2012 levy below $7,250,086 plus capital fund levies of $2,110,000 equal a total levy of $9,360,086.



Revenue for 2012 (shown in the top pie chart at right) is derived from a combination of sources including: 34% from utility charges, 32% from property taxes, 24% from charges for service (including inter-fund charges), 5% from central garage charges, 2% from intergovernmental revenue, 1% from licenses and permits, and 2% for all other sources combined.



Expense for 2012 (shown in the middle pie chart at right) shows that public works accounts for largest share at 31% (enterprise 23% and other public works functions 8%). Parks and recreation operations accounts for 23%, and includes maintenance of parks and park buildings, park administration, community center operations and recreation programs. Public safety accounts for 12% (police, fire, animal control and emergency services). General government and debt service each account for 10%, followed by depreciation at 8%, and central garage and community development at 3% each.



Total 2012 costs by classification are shown in the bottom chart at right. Unlike the two previous pie charts, this chart presents total costs, including planned capital project spending. The largest class of expense is for contractual services at 34%. The most significant contractual costs include police and fire contracts, sewage treatment, central garage charges, administrative charges, recycling, electric and insurance. Personal services accounts for 28% of total expense, compared to 18% for capital costs, 8% for debt service, 7% for depreciation of utility and central garage assets, and 5% for supplies.

Total Operating Funds	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Property Taxes	$6,208,335	$6,511,151	$6,777,040	$7,055,734	$7,250,086	$7,537,037	$7,890,956	$8,233,064	$8,582,957
Special Assessments	161,568	210,597	201,614	132,222	115,865	107,971	116,129	118,931	158,933
Licenses & Permits	531,895	368,878	501,198	307,010	292,750	279,750	277,300	272,100	266,100
Intergovernmental	307,984	240,869	342,426	280,122	400,247	367,832	367,102	365,592	363,262
Charges for Services	4,688,852	5,137,372	5,305,833	5,361,635	5,473,175	5,625,135	5,752,180	5,891,110	6,025,920
Fines & Forfeits	55,814	55,582	32,813	61,480	62,000	62,500	62,500	62,500	62,500
Utility Charges	5,813,407	6,501,275	6,487,924	6,964,709	7,540,762	7,864,601	8,144,143	8,433,385	8,950,963
Central Garage Chgs	903,653	939,716	1,043,775	1,109,080	1,137,680	1,153,020	1,181,090	1,192,490	1,192,790
Interest Earnings	478,855	208,450	160,710	193,500	208,550	220,350	238,400	243,205	265,900
Other Revenues	98,861	104,214	146,587	86,280	81,860	82,300	82,600	82,900	88,100
Total Revenue	19,249,224	20,278,104	20,999,920	21,551,772	22,562,975	23,300,496	24,112,400	24,895,277	25,957,425
Expense									
General Government	1,935,698	1,961,459	2,077,391	2,108,527	2,307,905	2,317,773	2,417,489	2,457,120	2,546,865
Public Safety	2,256,534	2,383,720	2,448,406	2,579,250	2,721,227	2,884,628	3,066,719	3,251,531	3,436,522
Public Works	1,679,740	1,719,828	1,714,051	1,779,738	1,889,483	1,965,317	2,037,548	2,106,492	2,154,869
Parks and Recreation	4,838,203	4,886,627	5,076,848	5,229,808	5,294,174	5,452,163	5,609,987	5,771,933	5,937,106
Commun Development	592,246	587,167	621,455	627,813	637,832	659,859	680,852	702,742	725,147
Enterprise Oper	4,683,872	5,041,186	5,110,193	5,373,536	5,409,730	5,559,989	5,741,367	5,938,196	6,077,248
Central Garage	555,396	569,884	502,790	546,685	576,564	590,407	607,605	623,481	639,873
Miscellaneous	134,741	98,214	79,834	48,000	48,000	40,000	42,000	42,000	40,000
Debt Service	3,616,974	1,925,191	2,172,791	2,125,505	2,333,436	2,277,782	2,217,417	2,156,465	2,275,472
Depreciation	1,237,268	1,284,632	1,397,175	1,804,000	1,861,000	1,914,000	1,958,000	1,980,600	2,145,000
Total Expense	21,530,672	20,457,908	21,200,934	22,222,862	23,079,351	23,661,918	24,378,984	25,030,560	25,978,102
Other Sources (Uses)									
Sale of Asset-Gain	30,690	60,749	29,473	47,000	20,000	41,000	24,000	36,000	51,000
Debt Refunded	-	-	-	(4,705,990)	-	-	-	-	-
Debt Proceeds	19,225	2,819	-	4,620,000	-	20,000	-	10,000	-
Contrib Cap Assets	273,063	1,255,021	107,585	-	-	-	-	-	-
Transfers In	2,464,521	1,561,872	1,992,463	1,942,301	2,056,090	2,359,186	2,076,517	2,079,942	1,777,254
Transfers Out	(749,166)	(805,214)	(1,211,030)	(1,259,529)	(1,149,840)	(1,338,400)	(1,971,017)	(1,370,900)	(1,596,554)
Net Change	$ (243,115)	$ 1,895,443	$ 717,477	$ (27,308)	$ 409,874	$ 720,364	$ (137,084)	$ 619,759	$ 211,023
Expense percent change	12.0%	-5.0%	3.6%	4.8%	3.9%	2.5%	3.0%	2.7%	3.8%

General Fund Operations

The General Fund is the primary operating fund of the City, accounting for all operations not otherwise accounted for in separate funds. In 2012, property taxes provide 78.4% of revenues for the fund (excluding transfers from other funds).

The City's fund balance policy addresses General Fund cash flow needs by designating 50% of the ensuing year tax levy as a minimum fund balance and by designating up to 10% of the ensuing year budgeted expense to provide additional protection against unanticipated events.

<u>Impacts</u>

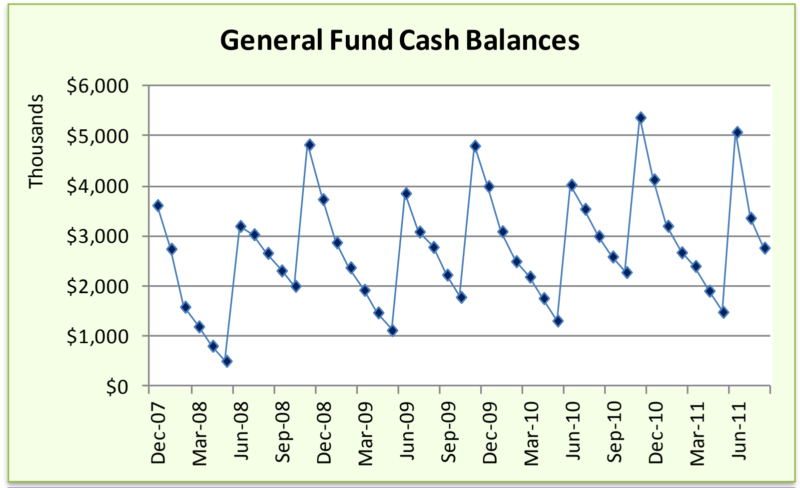
- Shoreview receives less aid than cities of similar size, making it more challenging to maintain competitive property tax levels
- The market value homestead credit program has been eliminated and is replaced by a market value exclusion program, therefore Shoreview will begin collecting the full tax levy in 2012
- Property taxes are increasing as a percent of total General Fund revenue, providing 78.4% of total revenue in 2012 and 80.5% in 2016
- Property tax collections occur in July and December, creating cash flow challenges for the fund

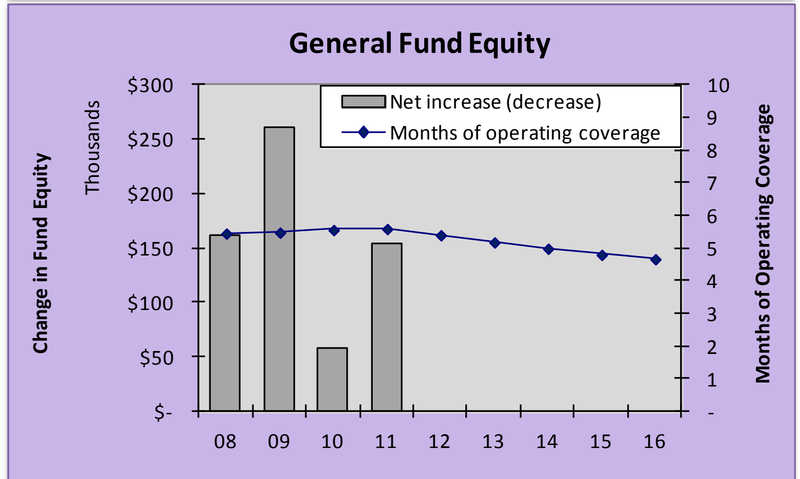
<u>Performance/History</u>

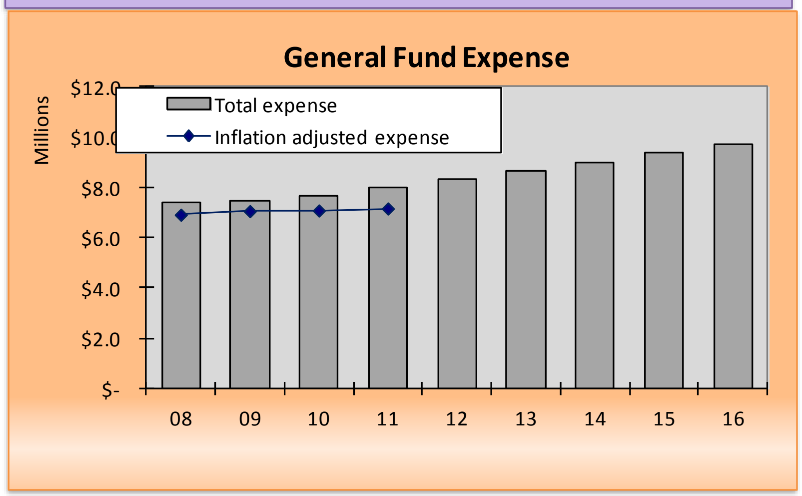
- Strong fund balances between 48% and 51% of current expense
- Operating coverage greater than 5 months in most years
- Internal decisions account for 90% of revenue sources

<u>Fund Goals/Targets</u>

- To manage cash flow needs, preserve working capital allocation equal to 50% of the ensuing year levy (minimum fund equity per City policy)
- To provide flexibility in addressing future budget challenges, preserve the unanticipated event allocation equal to 10% of the ensuing year budget where possible (per City policy)
- Maintain operating coverage equal to 5 months through retention of future operating surplus when available and through levy adjustments when necessary to meet working capital targets







General Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Property Taxes	$5,619,188	$5,963,199	$6,170,162	$6,345,734	$6,467,060	$6,717,037	$7,045,956	$7,348,064	$7,667,957
Licenses & Permits	531,895	368,878	501,198	307,010	292,750	279,750	277,300	272,100	266,100
Intergovernmental	200,602	181,321	187,717	181,502	183,002	184,302	184,202	184,202	184,102
Charges for Services	1,163,897	1,257,045	1,226,101	1,152,240	1,164,450	1,205,680	1,221,460	1,243,840	1,260,960
Fines & Forfeits	55,814	55,582	32,813	61,480	62,000	62,500	62,500	62,500	62,500
Interest Earnings	126,932	47,381	38,330	40,000	45,000	45,000	50,000	50,000	55,000
Other Revenues	35,524	27,289	33,400	39,580	35,160	25,600	25,900	26,200	26,400
Total Revenue	7,733,852	7,900,695	8,189,721	8,127,546	8,249,422	8,519,869	8,867,318	9,186,906	9,523,019
Expense									
General Government	1,670,182	1,646,587	1,696,835	1,905,043	2,085,610	2,107,075	2,183,755	2,231,901	2,316,142
Public Safety	2,256,534	2,383,720	2,448,406	2,579,250	2,721,227	2,884,628	3,066,719	3,251,531	3,436,522
Public Works	1,276,321	1,296,285	1,284,791	1,318,191	1,400,009	1,461,077	1,514,801	1,565,624	1,596,776
Parks and Recreation	1,579,862	1,613,084	1,665,045	1,687,095	1,588,453	1,625,645	1,669,617	1,722,112	1,777,812
Community Development	592,246	558,629	554,739	517,983	534,323	547,944	564,426	580,738	596,467
Total Expense	7,375,145	7,498,305	7,649,816	8,007,562	8,329,622	8,626,369	8,999,318	9,351,906	9,723,719
Other Sources (Uses)									
Transfers In	240,000	273,000	312,000	476,451	481,000	519,000	552,000	595,000	643,500
Transfers Out	(437,000)	(415,344)	(793,418)	(442,400)	(400,800)	(412,500)	(420,000)	(430,000)	(442,800)
Net Change	161,707	260,046	58,487	154,035	-	-	-	-	-
Fund Equity, beginning	3,440,895	3,602,602	3,862,648	3,921,135	4,075,170	4,075,170	4,075,170	4,075,170	4,075,170
Fund Equity, ending	$3,602,602	$3,862,648	$3,921,135	$4,075,170	$4,075,170	$4,075,170	$4,075,170	$4,075,170	$4,075,170
Fund equity percent of expense	49.8%	50.9%	49.9%	48.9%	47.2%	45.3%	43.6%	41.9%	40.7%
Months of operating coverage	5.5	5.5	5.6	5.6	5.4	5.2	5.0	4.8	4.7
Expense percent change	5.5%	1.7%	2.0%	4.7%	4.0%	3.6%	4.3%	3.9%	4.0%
Average annual percent change			3.4%						4.1%
Tax Levy percent change	1.9%	6.1%	3.5%	2.8%	1.9%	3.9%	4.9%	4.3%	4.4%
Percent of revenue from Gen Fund			5.1%						3.7%
Percent revenue/internal decision:	86.7%	92.3%	90.8%	93.4%	93.8%	94.3%	94.5%	94.8%	95.0%
Percent revenue/external decision	13.3%	7.7%	9.2%	6.6%	6.2%	5.7%	5.5%	5.2%	5.0%

Recycling Fund Operations

The Recycling Fund accounts for the City's curbside recycling program, through a joint powers agreement with Ramsey County. User fees are collected with property tax payments in July and December.

Impacts

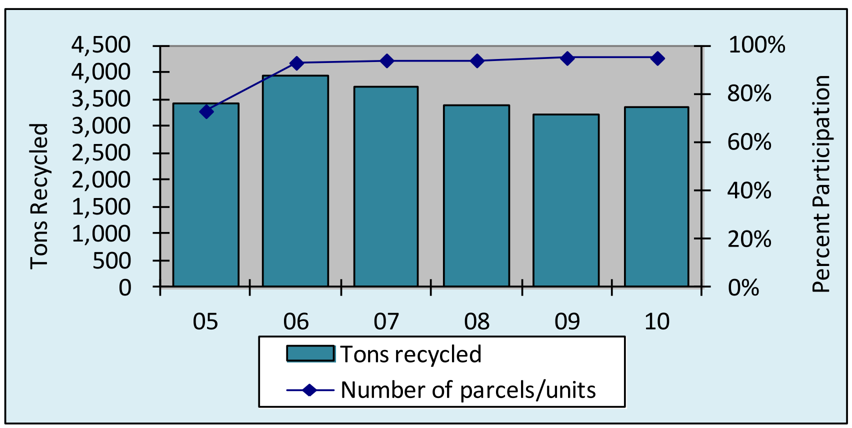
- SCORE grant funding has grown at a slower pace than program costs, and provides between 10% and 12% of revenue
- Reductions in newspaper circulation have significantly reduced the tons of materials recycled in recent years
- Participation rates are the highest in 6 years (95%)
- User fees provide between 85% and 88% of revenue, and are received in July and December, creating cash flow challenges for the fund

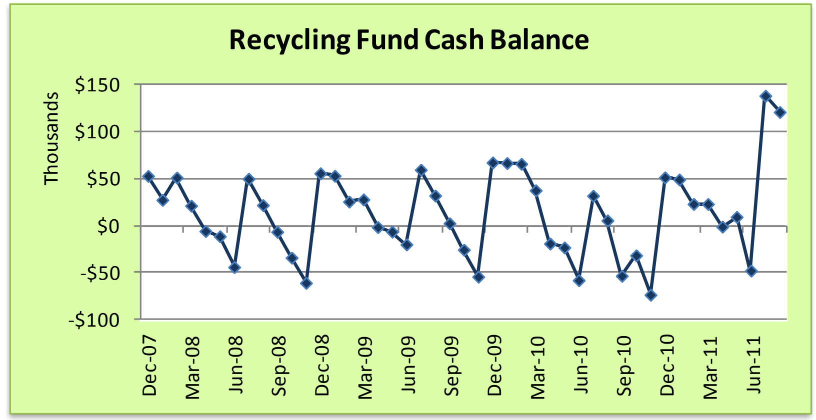
Performance/History

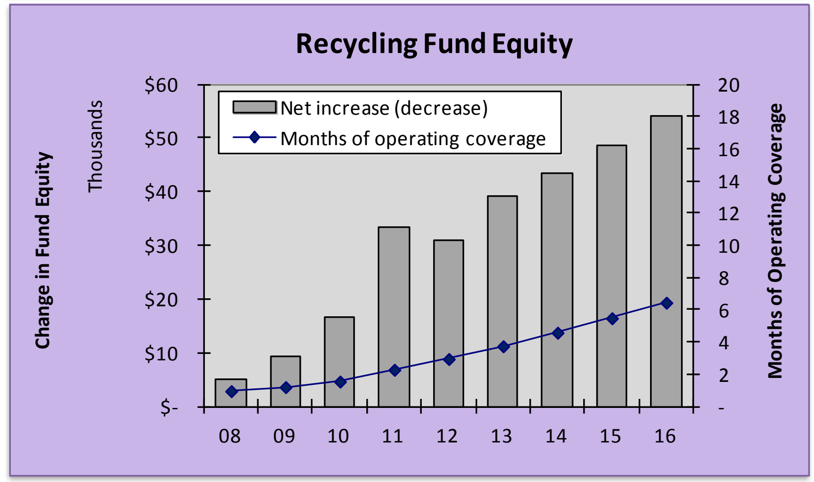
- Operating coverage of less than 1 month in 4 of the last 5 years
- Periodic negative cash balances due to the timing of revenue from user fees

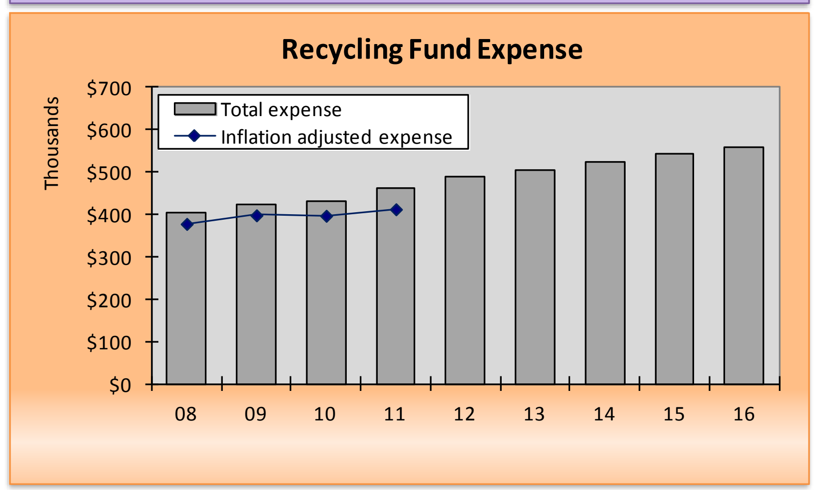
Fund Goals/Targets

- Gradually build fund balance and improve cash flow performance
- Establish recycling fees sufficient to generate operating coverage of 5 months within 5 years, and pay interest to the investment pool for temporary negative cash balances throughout the year









Recycling Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Intergovernmental									
SCORE Grant	$ 53,490	$ 53,359	$ 54,023	$ 53,240	$ 54,000	$ 55,000	$ 56,000	$ 57,000	$ 58,000
Other Local Governments	3,892	6,189	5,118	17,500	15,000	15,000	15,000	15,000	15,000
Charges for Services									
Recycling Charges	339,332	360,382	375,660	402,000	429,000	450,000	431,000	433,000	435,000
Cleanup Day Charges	11,353	12,715	10,888	22,270	22,300	23,300	64,300	84,300	104,300
Interest Earnings	360	269	62	-	-	-	-	-	-
Total Revenue	408,427	432,914	445,751	495,010	520,300	543,300	566,300	589,300	612,300
Expense									
Public Works									
Personal Services	29,626	29,828	30,207	15,737	27,004	28,610	30,217	32,328	34,063
Supplies	990	3,530	-	1,200	1,200	1,200	1,200	1,200	1,200
Contractual Services	372,803	390,185	399,053	444,610	461,270	474,430	491,330	507,340	522,830
Total Expense	403,419	423,543	429,260	461,547	489,474	504,240	522,747	540,868	558,093
Net Change	5,008	9,371	16,491	33,463	30,826	39,060	43,553	48,432	54,207
Fund Equity, beginning	28,801	33,809	43,180	59,671	93,134	123,960	163,020	206,573	255,005
Fund Equity, ending	$ 33,809	$ 43,180	$ 59,671	$ 93,134	$ 123,960	$ 163,020	$ 206,573	$ 255,005	$ 309,212
Fund equity percent of expense	8.0%	10.1%	12.9%	19.0%	24.6%	31.2%	38.2%	45.7%	53.7%
Months of operating coverage	1.0	1.2	1.6	2.3	3.0	3.7	4.6	5.5	6.4
Expense percent change	5.5%	5.0%	1.3%	7.5%	6.1%	3.0%	3.7%	3.5%	3.2%
Average annual percent change				4.5%					3.9%
Annual charge per parcel/unit	$ 31.50	$ 33.50	$ 35.00	$ 37.50	$ 40.00	$ 42.00	$ 44.00	$ 46.00	$ 48.00
Change in rate	$ 0.80	$ 2.00	$ 1.50	$ 2.50	$ 2.50	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Percent change in rate	2.6%	6.3%	4.5%	7.1%	6.7%	5.0%	4.8%	4.5%	4.3%
Average annual percent change				4.0%					5.1%
Cost per collection	$ 1.21	$ 1.29	$ 1.35	$ 1.44	$ 1.54	$ 1.62	$ 1.69	$ 1.77	$ 1.85
Participation rate	94.0%	95.0%	95.0%						
Tons recycled	3,385	3,204	3,342						
Number of parcels/units	10,772	10,758	10,719	10,719	10,720	10,720	10,720	10,720	10,720

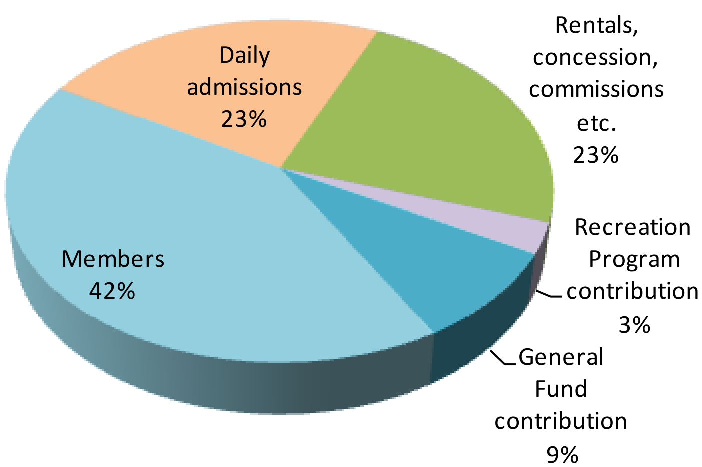
Community Center Fund Operations

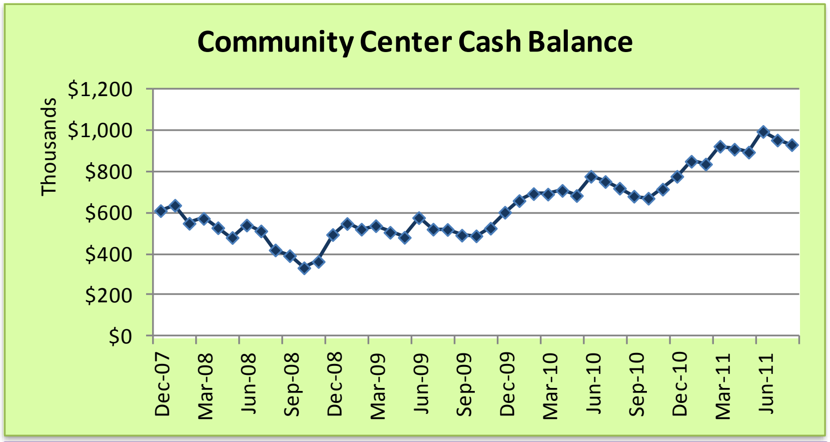
The Community Center Fund accounts for the operation and maintenance of the fitness center and studios, the Tropics Indoor Water Park, Tropical Adventure indoor play area, banquet and meeting rooms, birthday party rooms, gymnasium, locker facilities, picnic pavilion and concessions.

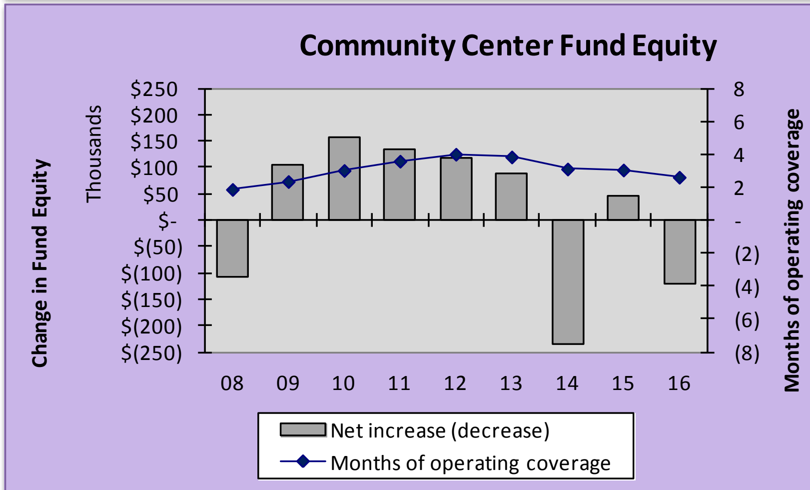
Impacts
- User fees provide 88% of revenue (memberships, admissions and room rentals)
- General Fund provides $225,000 in support of operations for 2012 through an inter-fund transfer
- Recreation programs Fund provides $75,000 in support for use of the facility
- Planned $300,000 transfer in 2014 as a contribution for a building addition

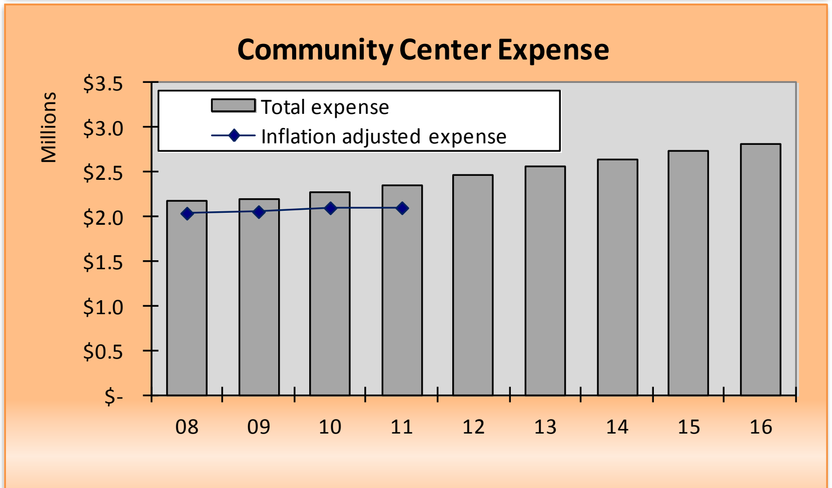
Performance/History
- Enrollment in automatic monthly billing by members continues to rise, providing greater cash flow stability
- Insurance incentive credits increased from $25,575 in 2008 to an estimated $62,000 in 2011
- Working capital coverage equal to 2 to 3 months in most years
- Positive cash flows

Fund Goals/Targets
- Adjust rates and operating expense to maintain operating coverage of 3 months
- Increase General Fund support approximately 3% per year
- Commit fund equity in excess of 3 months working capital to community center building improvements









Community Center Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Charges for Services									
Memberships	$ 790,448	$ 899,409	$ 1,040,491	$ 1,056,545	$ 1,077,390	$ 1,096,100	$ 1,115,700	$ 1,136,230	$ 1,160,700
Daily Admissions	494,723	548,429	522,366	584,000	596,920	610,080	623,460	637,090	650,960
Room Rentals	213,668	219,043	220,656	233,520	240,675	247,965	255,450	263,100	270,950
Concessions & Commissions	170,242	181,806	198,094	211,000	221,950	232,910	242,400	252,900	263,630
All Other Charges	130,639	123,702	125,135	129,000	133,050	136,700	141,350	146,000	149,650
Interest Earnings	18,693	8,171	8,017	8,000	8,000	9,000	10,000	12,000	14,000
Other Revenues	-	-	715	-	-	-	-	-	-
Total Revenue	1,818,413	1,980,560	2,115,474	2,222,065	2,277,985	2,332,755	2,388,360	2,447,320	2,509,890
Expense									
Parks and Recreation									
Personal Services	1,243,857	1,287,910	1,319,270	1,358,209	1,415,659	1,456,934	1,500,453	1,548,325	1,591,996
Supplies	429,071	392,043	405,540	443,500	461,760	481,115	501,370	515,280	534,440
Contractual	503,359	507,042	544,863	548,280	568,570	604,850	627,930	650,400	673,785
Capital Outlay	-	-	-	-	12,930	13,000	13,000	13,000	13,000
Total Expense	2,176,287	2,186,995	2,269,673	2,349,989	2,458,919	2,555,899	2,642,753	2,727,005	2,813,221
Other Sources (Uses)									
Sale of Asset-Gain	-	-	-	-	-	-	-	-	-
Transfers In	250,000	310,000	310,000	297,000	300,000	312,000	319,000	326,000	334,000
Transfers Out	-	-	-	(35,000)	-	-	(300,000)	-	(150,000)
Net Change	(107,874)	103,565	155,801	134,076	119,066	88,856	(235,393)	46,315	(119,331)
Fund Equity, beginning	449,160	341,286	444,851	600,652	734,728	853,794	942,650	707,257	753,572
Fund Equity, ending	$ 341,286	$ 444,851	$ 600,652	$ 734,728	$ 853,794	$ 942,650	$ 707,257	$ 753,572	$ 634,241
Fund equity committed to building impro	-	-	33,234	119,998	214,819	281,962	25,506	50,267	-
Fund equity percent of expense	15.6%	19.6%	25.2%	29.9%	33.4%	32.0%	25.9%	25.4%	21.8%
Months of operating coverage	1.9	2.4	3.0	3.6	4.0	3.8	3.1	3.1	2.6
Tax support as percent of expense	8.7%	10.5%	10.1%	9.7%	9.2%	9.1%	9.0%	9.0%	9.0%
Expense percent change	4.3%	0.5%	3.8%	3.5%	4.6%	3.9%	3.4%	3.2%	3.2%
Average annual percent change/exp				1.8%					3.7%
Insurance credits (memberships)	$ 111,800	$ 159,000	$ 178,500	$ 171,000					
Annual membership rev billed monthly	$ 123,628	$ 241,728	$ 352,441	$ 390,000					
Rate change, daily admissions	6.5%	7.0%	3.0%	3.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Rate change, memberships	6.5%	3-5%	2-4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Recreation Program Fund Operations

The Recreation Programs Fund accounts for a variety of recreational and social programs offered throughout the City on a fee basis. Financial support, through an inter-fund transfer, is provided to the Community Center fund to partially cover use of the facility.

Impacts

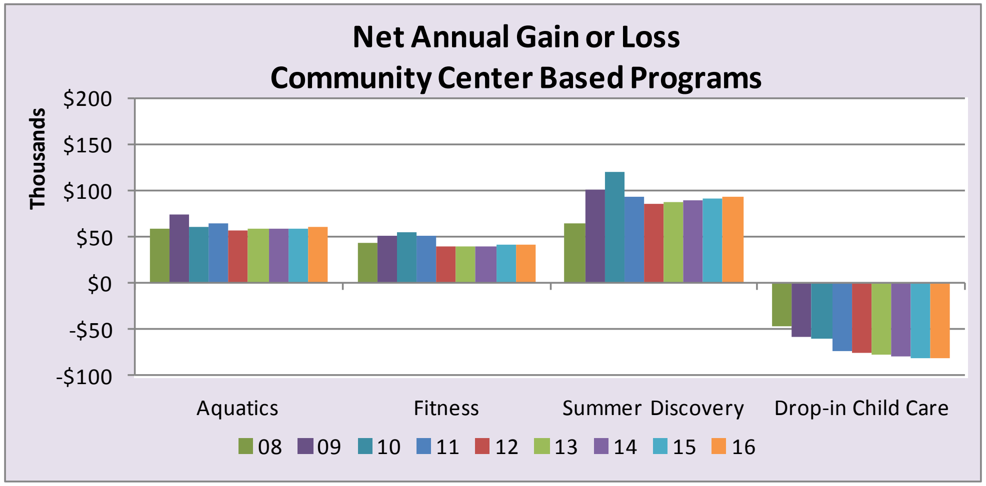
- User fees provide 95% of revenue
- General Fund provides support for community-oriented programs through an annual transfer
- Planned $300,000 transfer in 2014 as a contribution for a building addition

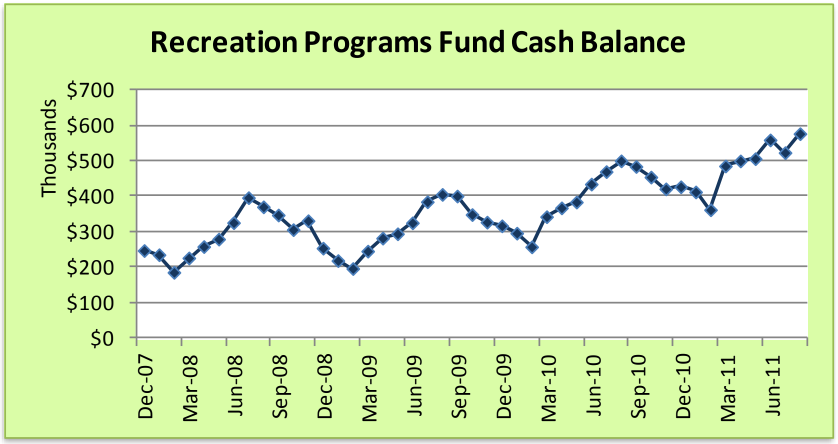
Performance/History

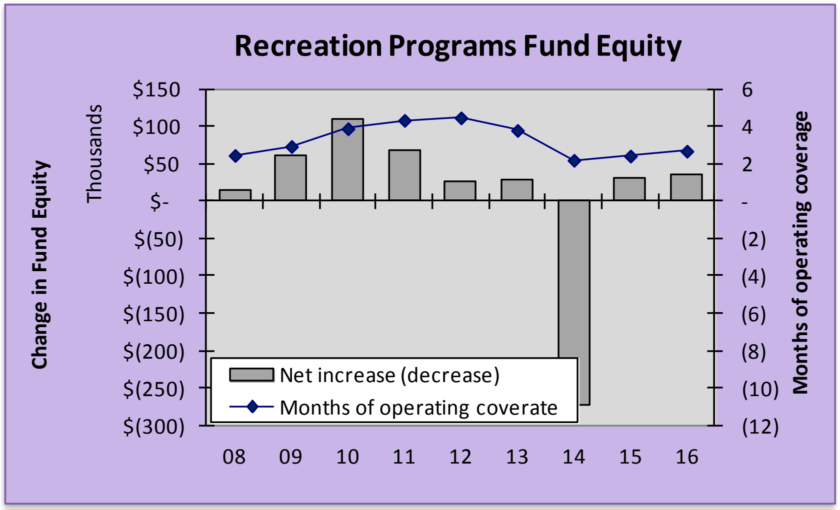
- Operating coverage equal to 2 to 4 months
- Positive cash flows

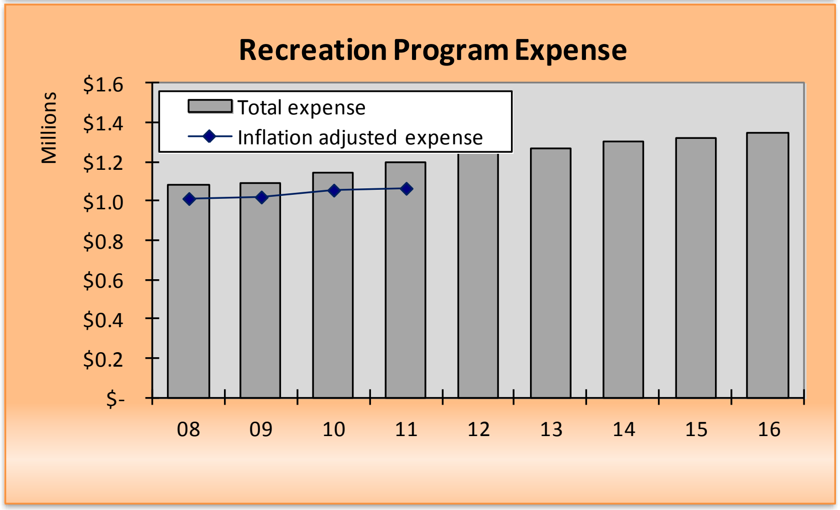
Fund Goals/Targets

- Preserve 3 months operating coverage through user fee adjustments
- Hold General Fund support to the rate of inflation or less
- Cover cost increases through operating efficiencies where possible/practical
- Commit fund equity in excess of 3 months working capital to community center building improvements

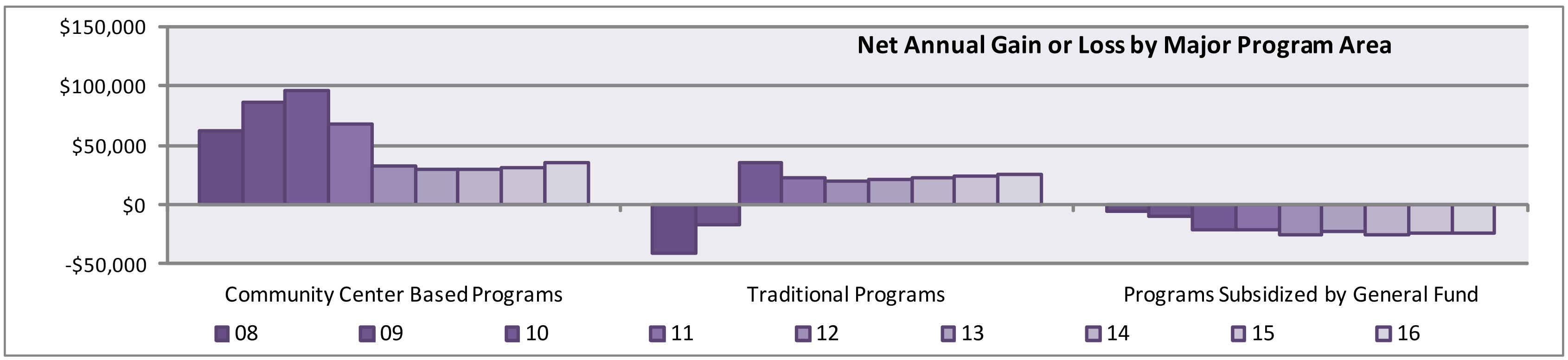








Recreation Programs Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Charges for Services	$1,072,244	$1,159,143	$1,266,929	$1,261,360	$1,277,740	$1,303,300	$1,329,360	$1,356,950	$1,383,070
Interest Earnings	11,252	4,925	4,623	4,600	4,600	4,800	5,000	5,000	5,000
Other Revenues	50	559	489	-	-	-	-	-	-
Total Revenue	1,083,546	1,164,627	1,272,041	1,265,960	1,282,340	1,308,100	1,334,360	1,361,950	1,388,070
Expense									
Parks and Recreation									
Parks Administration	274,867	294,157	305,513	298,569	331,258	345,238	361,398	376,331	389,104
Program Costs	807,187	792,391	836,617	894,155	915,544	925,381	936,219	946,485	956,969
Total Expense	1,082,054	1,086,548	1,142,130	1,192,724	1,246,802	1,270,619	1,297,617	1,322,816	1,346,073
Other Sources (Uses)									
Transfers In	73,000	62,000	60,000	65,000	65,000	70,000	70,000	72,000	74,000
Transfers Out	(60,000)	(80,000)	(80,000)	(70,000)	(75,000)	(80,000)	(380,000)	(80,000)	(80,000)
Net Change	14,492	60,079	109,911	68,236	25,538	27,481	(273,257)	31,134	35,997
Fund Equity, beginning	223,416	237,908	297,987	407,898	476,134	501,672	529,153	255,896	287,030
Fund Equity, ending	$ 237,908	$ 297,987	$ 407,898	$ 476,134	$ 501,672	$ 529,153	$ 255,896	$ 287,030	$ 323,027
Fund equity committed to bldg impr			$ 109,717	$ 164,434	$ 184,017	$ 204,749	$ -	$ -	$ -
Fund equity percent of expense	20.4%	24.4%	32.3%	36.0%	37.1%	31.5%	18.2%	20.1%	22.3%
Months of operating coverage	2.4	2.9	3.9	4.3	4.5	3.8	2.2	2.4	2.7
Revenue percent change	7.6%	7.5%	9.2%	-0.5%	1.3%	2.0%	2.0%	2.1%	1.9%
Average annual percent change				4.9%					1.9%
Expense percent change	7.0%	0.4%	5.1%	4.4%	4.5%	1.9%	2.1%	1.9%	1.8%
Average annual percent change				4.1%					2.5%
Percent of revenue from user fees	92.7%	94.5%	95.1%	94.8%	94.8%	94.6%	94.7%	94.6%	94.6%
Percent of revenue from Gen Fund	6.3%	5.1%	4.5%	4.9%	4.8%	5.1%	5.0%	5.0%	5.1%



Cable TV Fund Operations

The Cable TV Fund accounts for the operation and promotion of cable communications, provides partial support for newsletter costs, and provides funding for equipment necessary for broadcasting public meetings.

Impacts

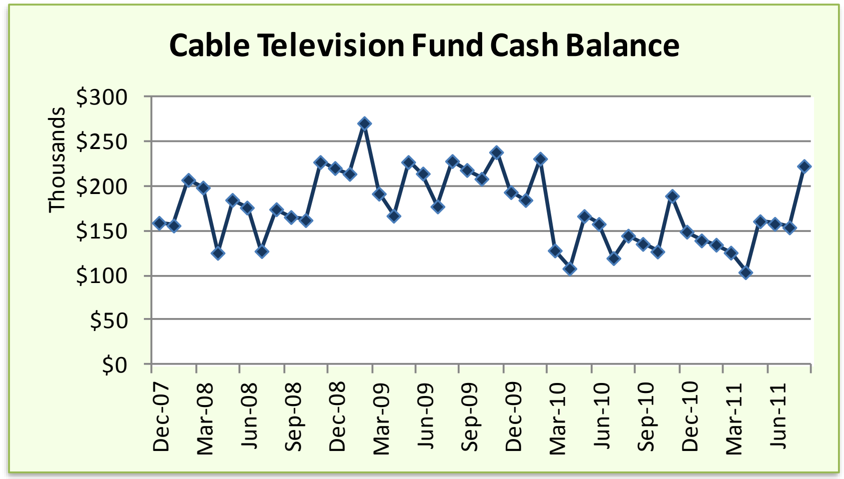
- Cable franchise fees provide more than 98% of revenue
- Future use of franchise fees could be impacted by changes in State law which could limit the franchising authority of cities as well as franchise fee revenue
- Transfers to the General Fund provide support for communication activities

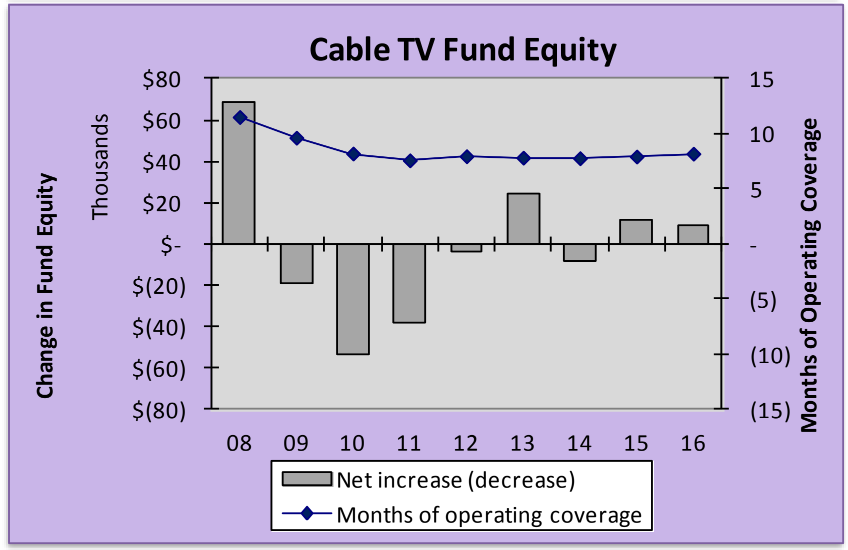
Performance/History

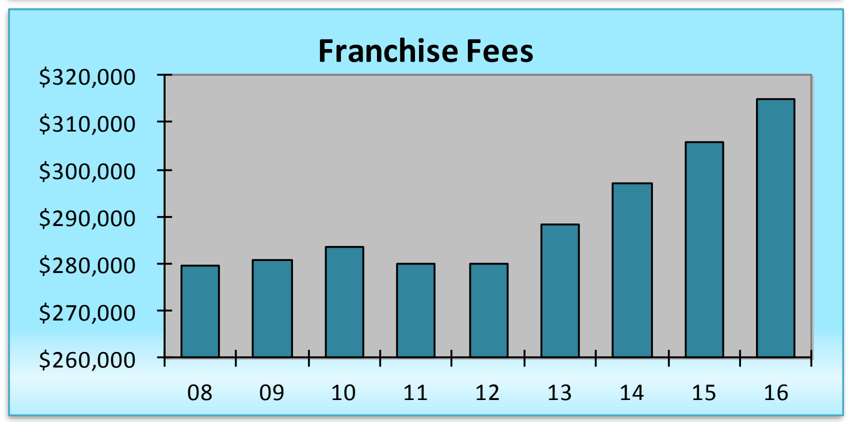
- Operating coverage equal to 7 to 12 months
- Positive cash flows

Fund Goals/Targets

- Preserve minimum operating coverage of 3 and up to 6 months when anticipated capital costs dictate higher balances
- Monitor fund balance changes







Cable Television Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Charges for Services	$279,794	$280,737	$283,394	$280,000	$280,000	$288,400	$297,000	$306,000	$315,000
Interest Earnings	6,834	3,411	1,822	1,800	1,800	1,800	1,800	2,000	2,000
Other Revenues	2,700	1,200	1,100	1,200	1,200	1,200	1,200	1,200	1,200
Total Revenue	289,328	285,348	286,316	283,000	283,000	291,400	300,000	309,200	318,200
Expense									
General Government									
Personal Services	87,588	105,963	109,354	32,404	32,985	33,688	34,404	35,409	36,433
Supplies	-	10,075	58,894	500	500	500	500	500	500
Contractual	120,904	154,297	158,429	113,380	131,610	118,310	137,130	126,560	131,040
Total Expense	208,492	270,335	326,677	146,284	165,095	152,498	172,034	162,469	167,973
Other Sources (Uses)									
Transfers Out	(12,166)	(33,998)	(13,250)	(174,679)	(121,950)	(115,000)	(136,500)	(135,000)	(141,500)
Net Change	68,670	(18,985)	(53,611)	(37,963)	(4,045)	23,902	(8,534)	11,731	8,727
Fund Equity, beginning	223,003	291,673	272,688	219,077	181,114	177,069	200,971	192,437	204,168
Fund Equity, ending	$291,673	$272,688	$219,077	$181,114	$177,069	$200,971	$192,437	$204,168	$212,895
Fund equity percent of expense	95.8%	80.2%	68.3%	63.1%	66.2%	65.1%	64.7%	66.0%	68.1%
Months of operating coverage	11.5	9.6	8.2	7.6	7.9	7.8	7.8	7.9	8.2
Franchise fee percent change	7.9%	0.3%	0.9%	-1.2%	0.0%	3.0%	3.0%	3.0%	2.9%
Average annual percent change				4.0%					2.4%

Economic Development Authority Fund Operations

The Economic Development Authority (EDA) was created in 2008 with an initial $50,000 transfer from the General Fund and $2,025 from the former Economic Development Fund. The City's previous deposit in the Twin Cities Community Capital Fund was returned to the City in 2010 ($165,777). Because the funds are legally restricted to economic development and business assistance (as governed by Minnesota statutes), the EDA is exploring other options for a business loan program. The funds will be invested until a loan program is selected or developed.

<u>Impacts</u>

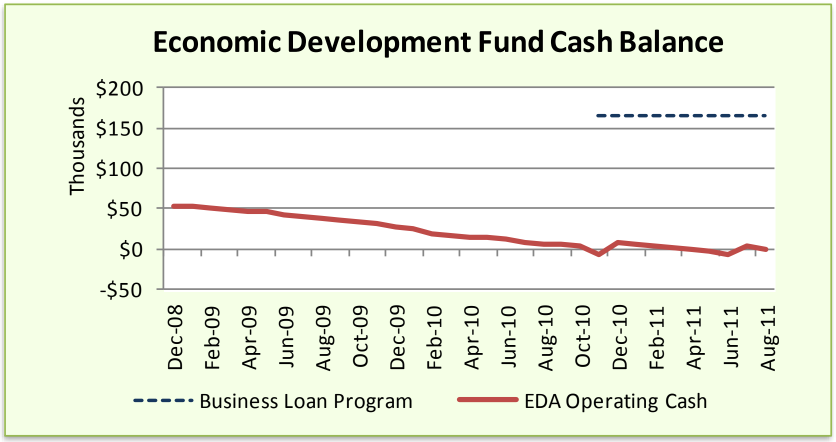
- First tax levy in 2011
- Levy authority is within the City's levy limit, when levy limits are in effect
- Property tax collections occur in July and December, creating cash flow challenges for the fund

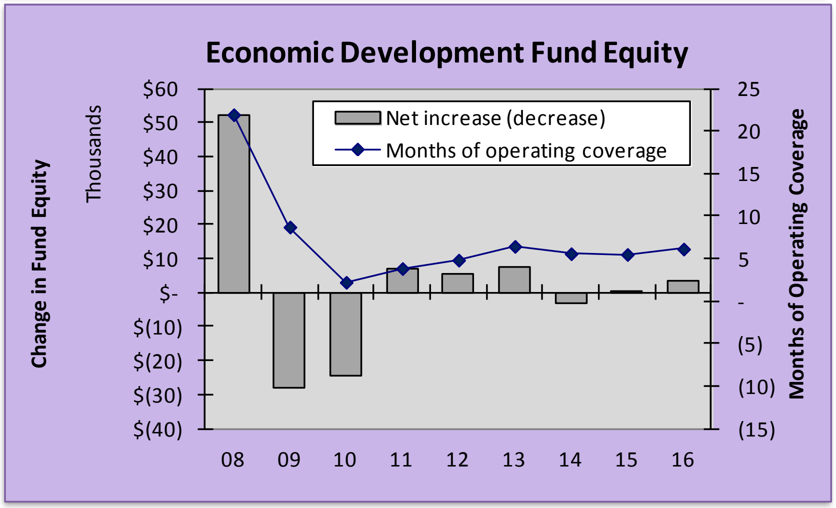
<u>Performance/History</u>

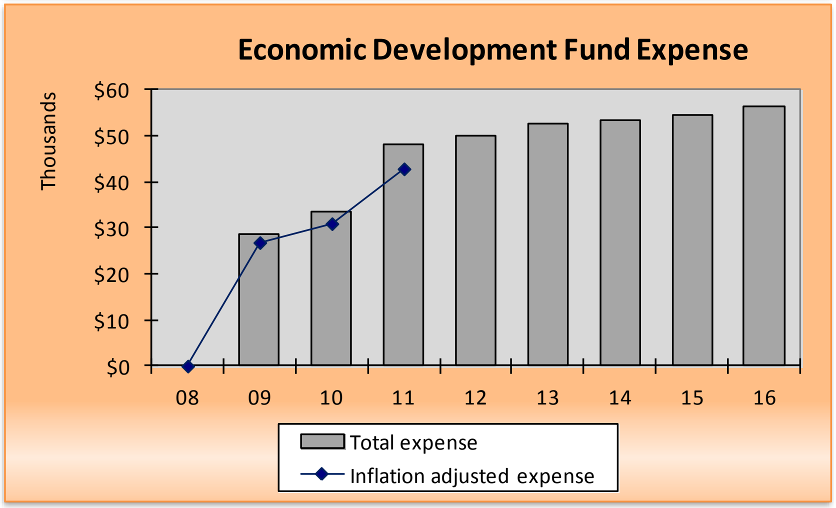
- Operating coverage dropped significantly in 2009 and 2010 due to the lack of revenue

<u>Fund Goals/Targets</u>

- Establish and maintain 5 months of operating coverage
- Monitor fund balance changes







Economic Development Authority Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Property Taxes	$ -	$ -	$ -	$ 25,000	$ 55,000	$ 60,000	$ 50,000	$ 55,000	$ 60,000
Interest Earnings	150	672	436	-	-	-	-	-	-
Total Revenue	150	672	436	25,000	55,000	60,000	50,000	55,000	60,000
Expense									
Community Development									
Personal Services	-	3,655	6,920	23,555	22,243	22,807	23,394	24,205	25,025
Supplies	-	-	-	1,700	2,000	2,000	2,000	2,100	2,100
Contractual Services	-	24,883	26,529	22,690	25,540	27,740	27,840	28,200	29,350
Total Expense	-	28,538	33,449	47,945	49,783	52,547	53,234	54,505	56,475
Other Sources (Uses)									
Transfers In									
From General Fund	50,000	-	8,354	30,010	-	-	-	-	-
From former Economic Development Fund	2,025	-	-	-	-	-	-	-	-
From closed Business Loan Program	175,000	-	-	-	-	-	-	-	-
Net Change	227,175	(27,866)	(24,659)	7,065	5,217	7,453	(3,234)	495	3,525
Fund Equity, beginning	-	227,175	199,309	174,650	181,715	186,932	194,385	191,151	191,646
Fund Equity, ending	$ 227,175	$ 199,309	$ 174,650	$ 181,715	$ 186,932	$ 194,385	$ 191,151	$ 191,646	$ 195,171
Fund Equity Breakdown									
Loan program fund balance	$ 175,000	$ 175,000	$ 165,777	$ 165,777	$ 165,777	$ 165,777	$ 165,777	$ 165,777	$ 165,777
Non loan program fund balance	$ 52,175	$ 24,309	$ 8,873	$ 15,938	$ 21,155	$ 28,608	$ 25,374	$ 25,869	$ 29,394
Months of operating coverage (excluding balances restricted for a business loan progr)	21.9	8.7	2.2	3.8	4.8	6.4	5.6	5.5	6.1
Tax levy percent change					120.0%	9.1%	-16.7%	10.0%	9.1%
Annual average percent change									26.3%

Housing Redevelopment Authority Fund Operations

The Housing Redevelopment Authority (HRA) was created in 2009 to account for housing-related activities of the EDA, with the first year of operation in 2010.

Impacts

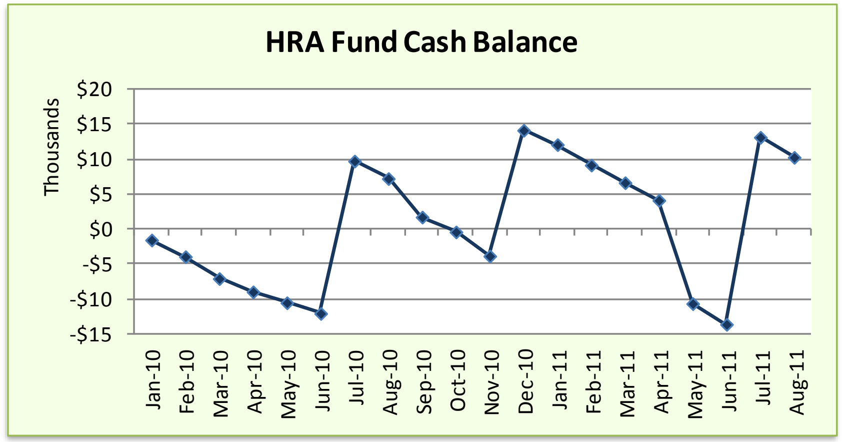
- First tax levy in 2010
- MVHC loss of $1,965 for 2010 and estimated 2011 loss of $2,141
- Levy authority for the HRA is outside the City's levy limit

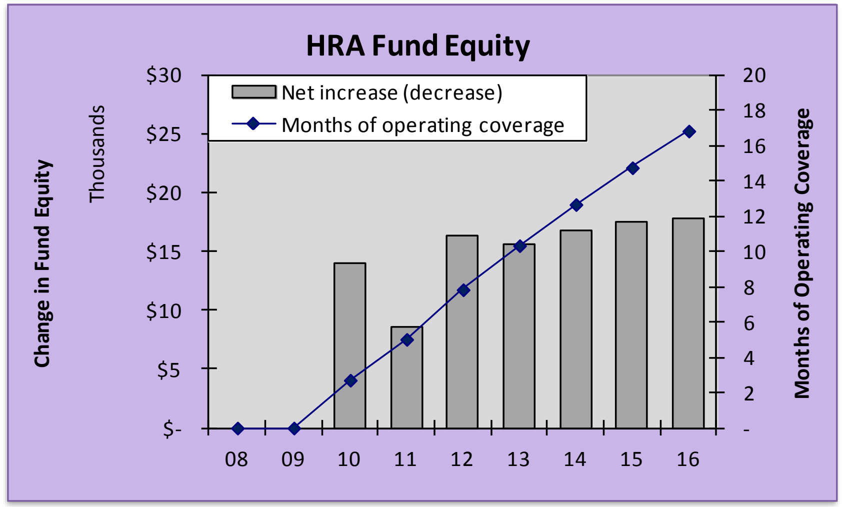
Performance/History

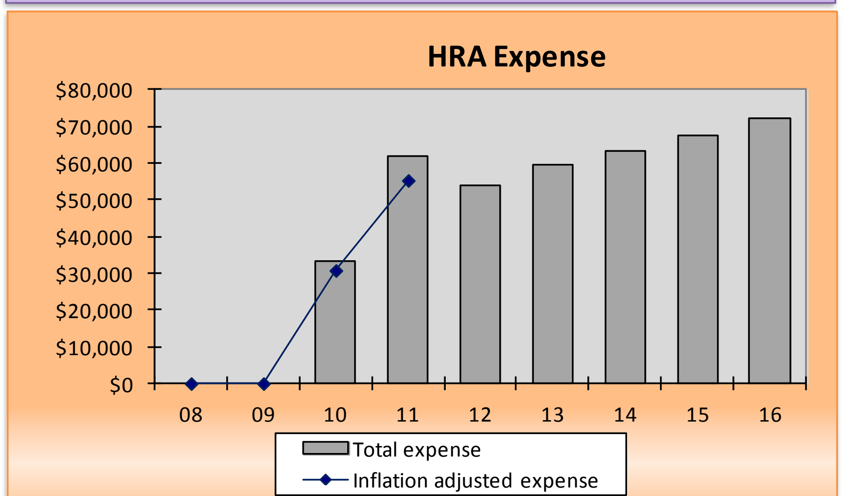
- No significant history to report

Fund Goals/Targets

- Establish and maintain 5 months of operating coverage
- Monitor fund balance changes







Housing Redevelopment Authority	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Property Taxes	$ -	$ -	$ 47,248	$ 60,000	$ 70,000	$ 75,000	$ 80,000	$ 85,000	$ 90,000
Total Revenue	-	-	47,248	60,000	70,000	75,000	80,000	85,000	90,000
Expense									
Community Development									
Personal Services	-	-	28,415	31,885	23,726	27,368	31,192	35,499	39,205
Contractual Services	-	-	4,852	30,000	30,000	32,000	32,000	32,000	33,000
Debt Service	-	-	14	-	-	-	-	-	-
Total Expense	-	-	33,281	61,885	53,726	59,368	63,192	67,499	72,205
Other Sources (Uses)									
Transfers In	-	-	-	10,390	-	-	-	-	-
Net Change	-	-	13,967	8,505	16,274	15,632	16,808	17,501	17,795
Fund Equity, beginning	-	-	-	13,967	22,472	38,746	54,378	71,186	88,687
Fund Equity, ending	$ -	$ -	$ 13,967	$ 22,472	$ 38,746	$ 54,378	$ 71,186	$ 88,687	$ 106,482
Fund equity percent of expense			22.6%	41.8%	65.3%	86.1%	105.5%	122.8%	140.1%
Months of operating coverage			2.7	5.0	7.8	10.3	12.7	14.7	16.8
Taxable Value (millions)			$ 29.6	$ 27.6	$ 25.4	$ 24.9	$ 24.9	$ 24.9	$ 25.5
Tax Rate (HRA)			0.169%	0.198%	0.254%	0.279%	0.299%	0.319%	0.332%
Change in tax rate				17.2%	28.3%	9.8%	7.2%	6.7%	4.1%
Average annual percent change									
Expense percent change				85.9%	-13.2%	10.5%	6.4%	6.8%	7.0%
Average annual percent change									
Market value homestead credit loss			$ 1,965	$ 2,141	$ -	$ -	$ -	$ -	$ -

Slice of Shoreview Fund Operations

The Slice of Shoreview Fund accounts for costs, donations, sponsorships and vendor fees associated with the Slice of Shoreview event.

Impacts

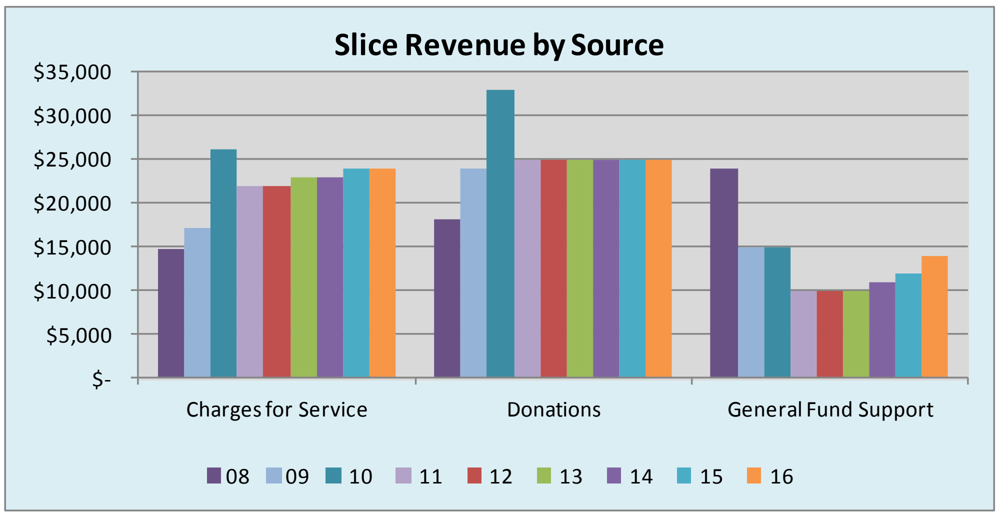
- For 2012, support for the event is provided by donations (44%), fees (39%), and General Fund support (17%)

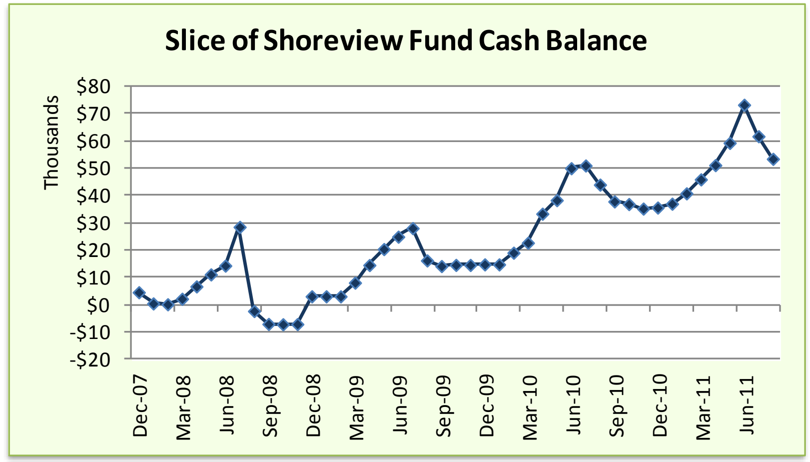
Performance/History

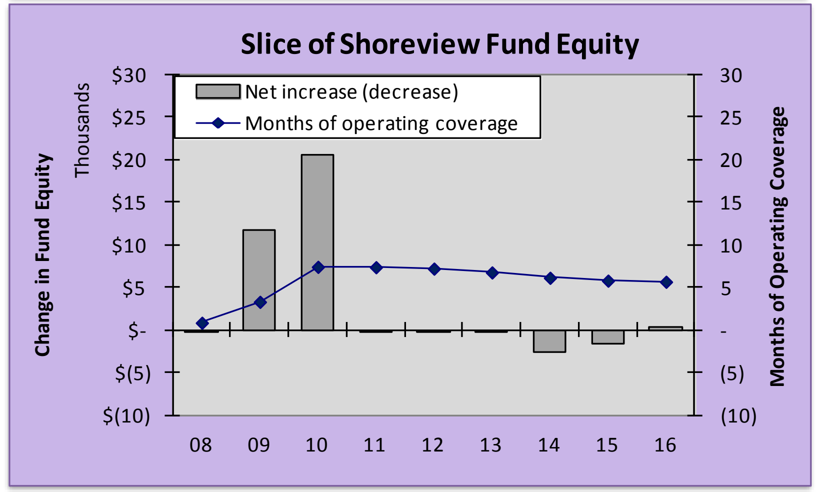
- Temporary periods of cash deficits in 2008 (shown in graph at right)
- Improved operating performance in the last 3 years
- Operating coverage between 1 to 7 months

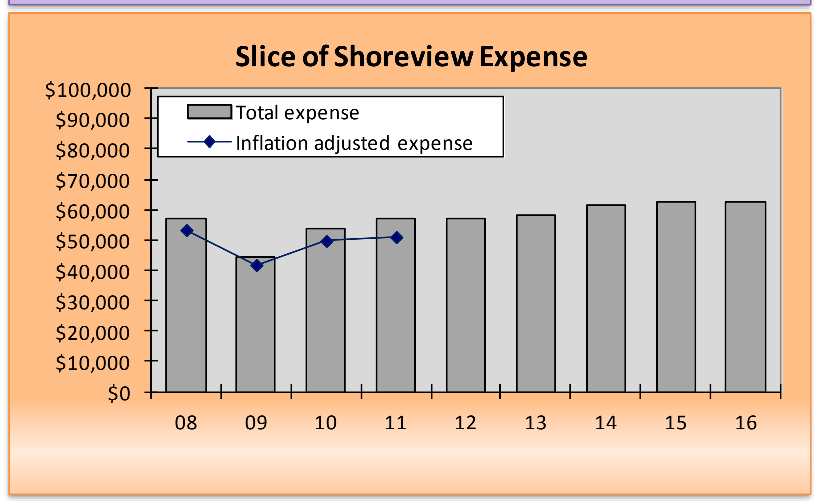
Fund Goals/Targets

- Preserve 6 to 12 months of operating coverage to ensure adequate coverage of event costs in the event of a decline in donations
- Hold General Fund support to the rate of inflation or less









Slice of Shoreview Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Charges for Services	$ 14,649	$ 17,137	$ 26,142	$ 22,000	$ 22,000	$ 23,000	$ 23,000	$ 24,000	$ 24,000
Interest Earnings	144	222	388	-	-	-	-	-	-
Other Revenues (donations)	18,112	23,874	32,866	25,000	25,000	25,000	25,000	25,000	25,000
Total Revenue	32,905	41,233	59,396	47,000	47,000	48,000	48,000	49,000	49,000
Expense									
General Government	57,024	44,537	53,879	57,200	57,200	58,200	61,700	62,750	62,750
Total Expense	57,024	44,537	53,879	57,200	57,200	58,200	61,700	62,750	62,750
Other Sources (Uses)									
Transfers In	24,000	15,000	15,000	10,000	10,000	10,000	11,000	12,000	14,000
Net Change	(119)	11,696	20,517	(200)	(200)	(200)	(2,700)	(1,750)	250
Fund Equity, beginning	3,253	3,134	14,830	35,347	35,147	34,947	34,747	32,047	30,297
Fund Equity, ending	$ 3,134	$ 14,830	$ 35,347	$ 35,147	$ 34,947	$ 34,747	$ 32,047	$ 30,297	$ 30,547
Fund equity percent of expense	7.0%	27.5%	61.8%	61.4%	60.0%	56.3%	51.1%	48.3%	47.2%
Months of operating coverage	0.8	3.3	7.4	7.4	7.2	6.8	6.1	5.8	5.7
Expense percent change	-1.1%	-21.9%	21.0%	6.2%	0.0%	1.7%	6.0%	1.7%	0.0%
Annual average percent change				1.0%					1.9%

Water Fund Operations

The Water Fund accounts for the distribution of water to residences and businesses, and operation and maintenance of the water system. Fluctuations in water consumption and revenue are expected from year to year, therefore projections use a "base year" approach to estimate gallons sold. Rates are set to support operating costs in a typical "base year", removing the impact of drought or high rainfall years.

Impacts

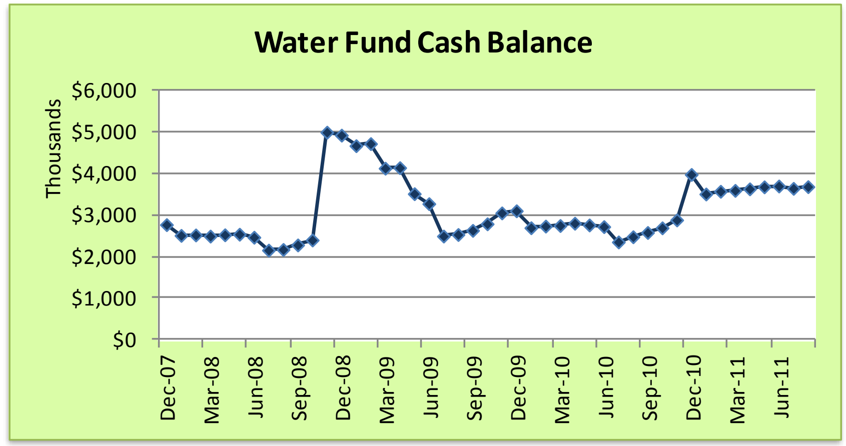
- Average household water consumption continues to decline
- Average winter household consumption in the last 5 years is about 6% lower than the previous 5-year period
- Water use fluctuates significantly based on rainfall during the growing season
- Contributions for maintenance center debt payments began in 2011

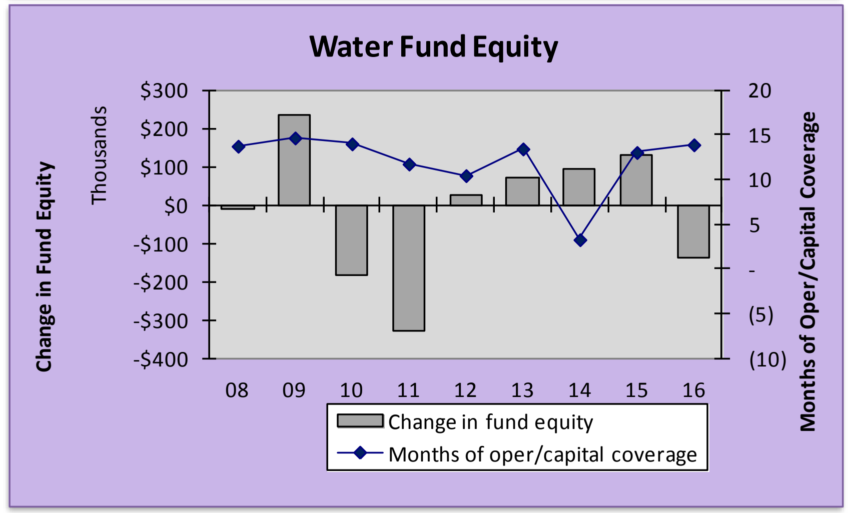
Performance/History

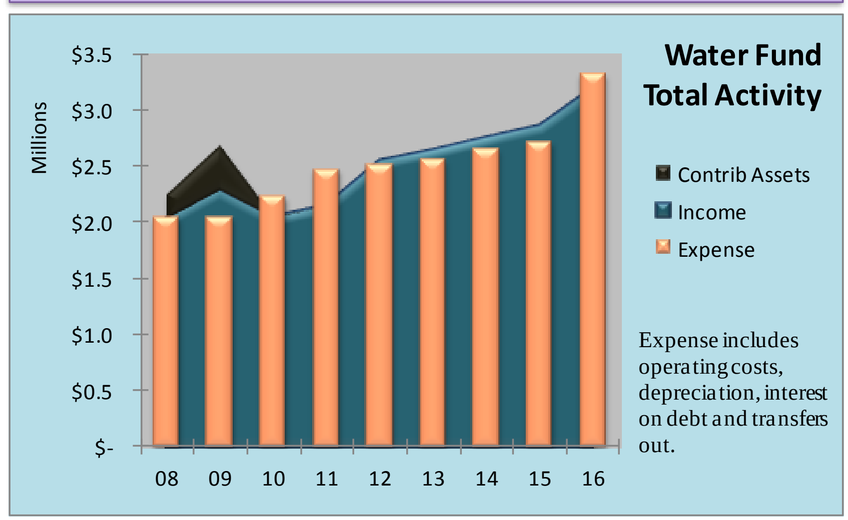
- Operating coverage equal to 11 to 14 months of operating and capital costs
- Stable cash balances (apart from spending down of bond proceeds)
- Operating income generated each year, yet the fund experiences an overall decrease in net assets in 2010 and is expected for 2011
- Projected base gallons reduced from 950 million gallons in the last FYOP to 875 million gallons

Fund Goals/Targets

- Preserve a minimum of 8 months of operating coverage (exempt of anticipated water treatment plant costs, which cause a temporary drop in this indicator for 2014)
- Increase water rates to achieve overall gain for 2012 (at revised base gallons)
- Begin adjusting water rates two years before the scheduled addition of a water treatment plant in 2015







Water Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Special Assessments	$ 1,317	$ 1,650	$ 1,113	$ -	$ -	$ -	$ -	$ -	$ -
Utility Charges	1,846,575	2,108,805	1,901,006	2,070,000	2,460,000	2,555,000	2,660,000	2,765,000	3,095,000
Late Fees/Utility Charges	36,808	41,370	42,255	-	-	-	-	-	-
Water Facility Charges	13,750	4,400	6,168	4,000	4,000	4,000	4,000	4,000	4,000
Other Charges	17,510	55,197	13,913	4,500	4,800	5,000	5,000	5,000	5,000
Other Revenues	4,400	14,408	44,846	-	-	-	-	-	-
Total Revenue	1,920,360	2,225,830	2,009,301	2,078,500	2,468,800	2,564,000	2,669,000	2,774,000	3,104,000
Expense									
Enterprise Operations	1,329,618	1,245,066	1,339,306	1,432,867	1,455,461	1,488,456	1,539,744	1,585,505	1,581,652
Miscellaneous	362	-	-	-	-	-	-	-	-
Depreciation	465,963	476,849	543,688	605,000	630,000	637,000	644,000	650,000	800,000
Total Expense	1,795,943	1,721,915	1,882,994	2,037,867	2,085,461	2,125,456	2,183,744	2,235,505	2,381,652
Operating Income (Loss)	124,417	503,915	126,307	40,633	383,339	438,544	485,256	538,495	722,348
Other Sources (Uses)									
Interest Earnings	112,657	56,635	32,722	50,000	55,000	55,000	60,000	60,000	65,000
Contributed Capital Assets	212,000	396,278	7,246	-	-	-	-	-	-
Intergovernmental	-	-	557	13,370	13,200	12,940	12,620	12,200	11,630
Debt Service	(126,890)	(197,535)	(192,894)	(205,944)	(184,287)	(171,435)	(185,837)	(173,162)	(599,619)
Transfers Out	(120,000)	(130,000)	(151,037)	(225,000)	(240,000)	(262,500)	(277,500)	(307,500)	(337,500)
Net Change	202,184	629,293	(177,099)	(326,941)	27,252	72,549	94,539	130,033	(138,141)
Fund Equity, beginning	12,024,530	12,226,714	12,856,007	12,678,908	12,351,967	12,379,219	12,451,768	12,546,307	12,676,340
Fund Equity, ending	$ 12,226,714	$ 12,856,007	$ 12,678,908	$ 12,351,967	$ 12,379,219	$ 12,451,768	$ 12,546,307	$ 12,676,340	$ 12,538,199
Months of oper/cap coverage	13.7	14.7	14.0	11.7	10.4	13.4	3.3	13.0	13.9
Cash balance	$ 4,923,229	$ 3,103,590	$ 3,977,866	$ 2,862,641	$ 2,546,198	$ 3,310,546	$ 3,317,491	$ 4,113,743	$ 4,065,646
Capital costs	$ 326,278	$ 2,253,239	$ 314,400	$ 942,900	$ 416,000	$ 365,500	$ 311,500	$ 9,363,800	$ 470,000
Unspent bond proceeds	$ 2,116,195	$ -	$ 939,784	$ -					
General transfer percent of assets	0.57%	0.55%	0.60%	0.64%	0.68%	0.73%	0.78%	0.66%	0.73%
	weighted	weighted		blended	blended				
Rate Increase (middle tier)	8.0%	12.0%	5.0%	10.0%	15.0%	4.1%	4.1%	4.1%	12.0%
Change in utility charge revenue	2.8%	14.2%	-9.9%	8.9%	18.8%	3.9%	4.1%	3.9%	11.9%
Debt issued	$ 2,365,000	$ -	$ 1,240,000	$ -	$ -	$ 790,000	$ -	$ 9,780,000	$ 480,000
Debt payments (principal)	$ 275,000	$ 315,000	$ 425,000	$ 460,000	$ 550,000	$ 365,000	$ 415,000	$ 395,000	$ 715,000
Debt balance (year end)	$ 5,210,000	$ 4,895,000	$ 5,710,000	$ 5,250,000	$ 4,700,000	$ 5,125,000	$ 4,710,000	$ 14,095,000	$ 13,860,000
Gallons of water sold (000)	973,106	1,066,008	910,803	881,146	875,156	875,000	875,000	875,000	875,000
Quarterly residential gallons (avg)	20,650	22,263	18,536	17,500					
Quarterly multi-family gallons (avg)	8,776	8,687	9,405	9,168					

Sewer Fund Operations

The Sewer Fund accounts for the collection and treatment of wastewater (sewage) from homes and businesses throughout the City. Sewage is routed or pumped into facilities owned and operated by Metropolitan Council Environmental Services. Because sewage treatment costs are more than half of operating costs, rates are designed to charge high volume customers more because they contribute more flow to the system.

<u>Impacts</u>

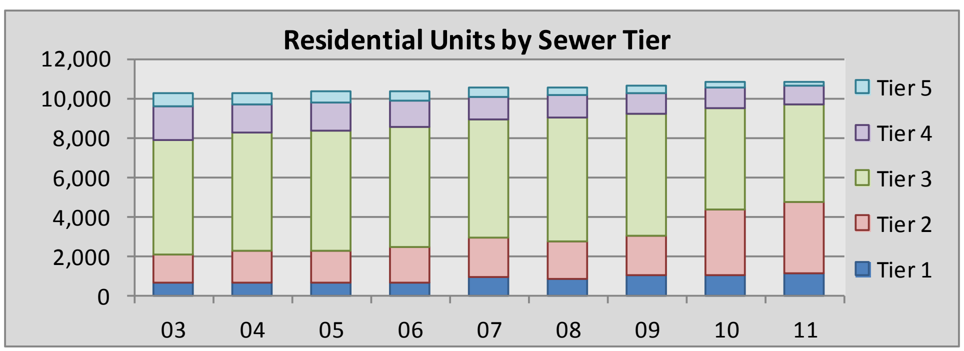
- Residential sewer bills are based on winter water consumption
- Average winter household consumption in the last 5 years is approximately 6% lower than the previous 5-year period
- Residential customers billed in the 3 lowest tiers are growing while customers billed in the 2 highest tiers are declining
- Inflow and infiltration elimination project completed in 2009 allows the City to avoid an annual sewage treatment surcharge
- Contributions for maintenance center debt payments began in 2011
- Sewage treatment costs decline for 2012, allowing the City to hold sewer rates constant and mitigate the impact of higher water rates

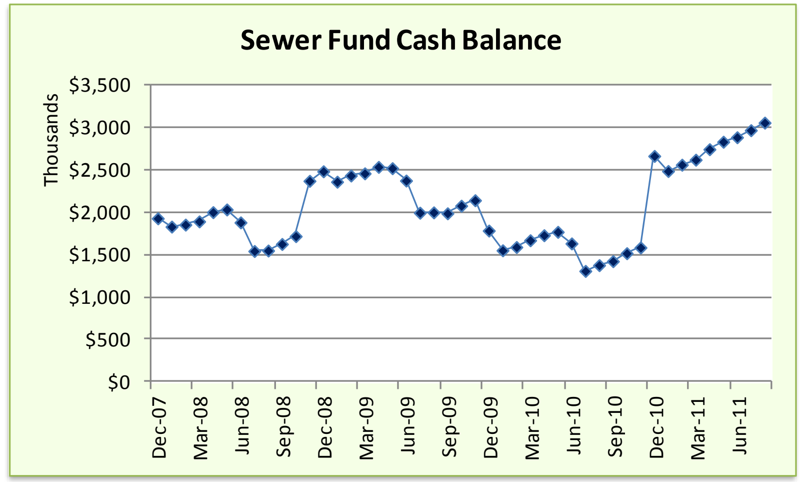
<u>Performance/History</u>

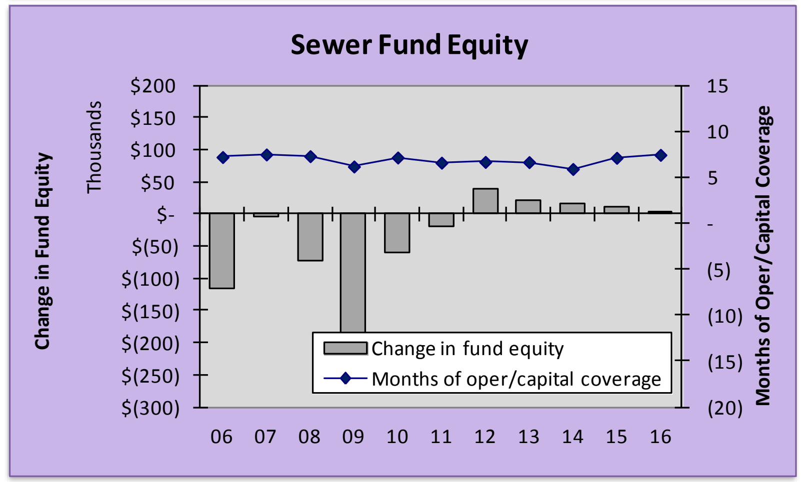
- Operating coverage equal to 6 to 7 months
- Stable cash balances (apart from spending down of bond proceeds)
- Operating losses in 1 of the last 4 years
- Decrease in overall net assets in 3 of the last 4 years

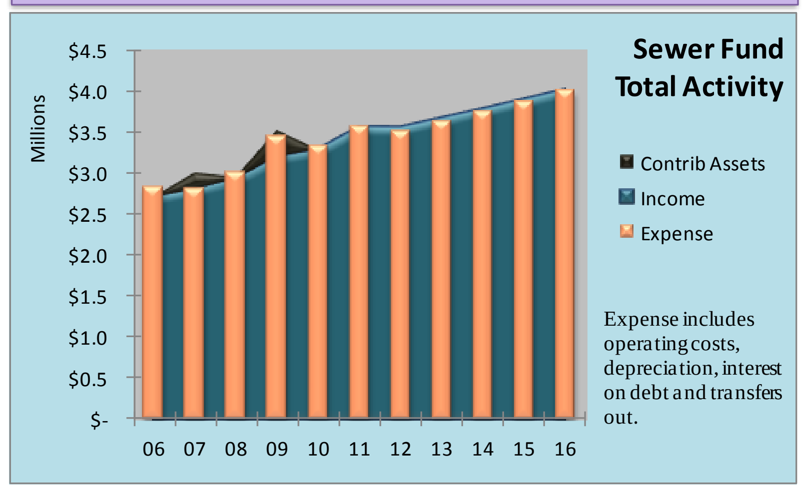
<u>Fund Goals/Targets</u>

- Preserve 6 months operating and capital coverage









Sewer Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Special Assessments	$ 1,434	$ 1,863	$ 1,092	$ -	$ -	$ -	$ -	$ -	$ -
Charges for Services	511	180	2,365	200	200	200	200	200	200
Utility Charges	2,791,838	3,054,922	3,158,442	3,500,000	3,500,000	3,605,000	3,711,000	3,822,000	3,936,000
Late Fees/Utility Charges	49,240	62,070	69,985	-	-	-	-	-	-
Sewer Facility Charges	4,125	2,475	1,650	3,000	4,000	4,000	4,000	4,000	4,000
Other Charges	1,852	29,957	20,665	6,500	2,500	2,500	2,500	2,500	2,500
Other Revenues	-	138	-	-	-	-	-	-	-
Total Revenue	2,849,000	3,151,605	3,254,199	3,509,700	3,506,700	3,611,700	3,717,700	3,828,700	3,942,700
Expense									
Enterprise Operations	2,590,220	3,013,765	2,869,607	2,996,432	2,942,296	3,055,226	3,170,977	3,287,821	3,390,850
Miscellaneous	362	-	-	-	-	-	-	-	-
Depreciation	251,630	265,557	279,711	305,000	300,000	310,000	315,000	320,000	320,000
Total Expense	2,842,212	3,279,322	3,149,318	3,301,432	3,242,296	3,365,226	3,485,977	3,607,821	3,710,850
Operating Income (Loss)	6,788	(127,717)	104,881	208,268	264,404	246,474	231,723	220,879	231,850
Other Sources (Uses)									
Interest Earnings	74,581	35,907	19,357	25,000	25,000	30,000	35,000	40,000	45,000
Contributed Capital Assets	24,000	318,200	-	-	-	-	-	-	-
Intergovernmental	-	-	444	10,650	10,515	10,310	10,050	9,720	9,290
Debt Service	(34,913)	(50,950)	(57,495)	(77,228)	(72,843)	(68,884)	(64,018)	(60,138)	(83,867)
Transfers Out	(120,000)	(120,000)	(127,037)	(187,000)	(188,000)	(196,500)	(197,500)	(198,500)	(199,500)
Net Change	(49,544)	55,440	(59,850)	(20,310)	39,076	21,400	15,255	11,961	2,773
Fund Equity, beginning	7,232,566	7,183,022	7,238,462	7,178,612	7,158,302	7,197,378	7,218,778	7,234,033	7,245,994
Fund Equity, ending	$ 7,183,022	$ 7,238,462	$ 7,178,612	$ 7,158,302	$ 7,197,378	$ 7,218,778	$ 7,234,033	$ 7,245,994	$ 7,248,767
Months of oper/cap coverage	7.3	6.2	7.2	6.6	6.7	6.6	5.9	7.1	7.4
Cash balance	$ 2,483,341	$ 1,784,149	$ 2,664,496	$ 1,963,697	$ 2,082,738	$ 2,141,965	$ 2,191,617	$ 2,486,235	$ 2,599,741
Capital costs	$ 96,295	$ 633,862	$ 134,201	$ 905,800	$ 74,000	$ 115,500	$ 118,750	$ 590,300	$ 197,000
Unspent bond proceeds	$ 509,212	$ -	$ 874,325	$ -					
General transfer percent of assets	1.08%	0.99%	1.04%	1.42%	1.41%	1.46%	1.45%	1.40%	1.39%
Rate Increase (middle tier)	6.2%	10.0%	6.0%	10.0%	0.0%	3.0%	3.0%	3.0%	3.0%
Change in utility charge revenue	5.5%	9.4%	3.4%	10.8%	0.0%	3.0%	2.9%	3.0%	3.0%
Debt issued	$ 580,000	$ -	$ 985,000	$ -	$ -	$ -	$ -	$ 720,000	$ 200,000
Debt payments (principal)	$ 45,000	$ 55,000	$ 80,000	$ 90,000	$ 145,000	$ 155,000	$ 160,000	$ 165,000	$ 210,000
Debt balance (year end)	$ 1,370,000	$ 1,315,000	$ 2,220,000	$ 2,130,000	$ 1,985,000	$ 1,830,000	$ 1,670,000	$ 2,225,000	$ 2,215,000
Commercial gallons (000)	92,068	89,834	89,289	86,500	86,500	86,500	86,500	86,500	86,500
Winter gallons-residential (avg)	13,438	14,837	13,432	12,931					
Winter gallons-multi-family (avg)			8,756	8,426					

Surface Water Management Fund Operations

The Surface Water Management Fund accounts for the City's storm sewers and surface water ponds. The storm system collects and directs surface water runoff and provides protections for ground water quality.

Impacts

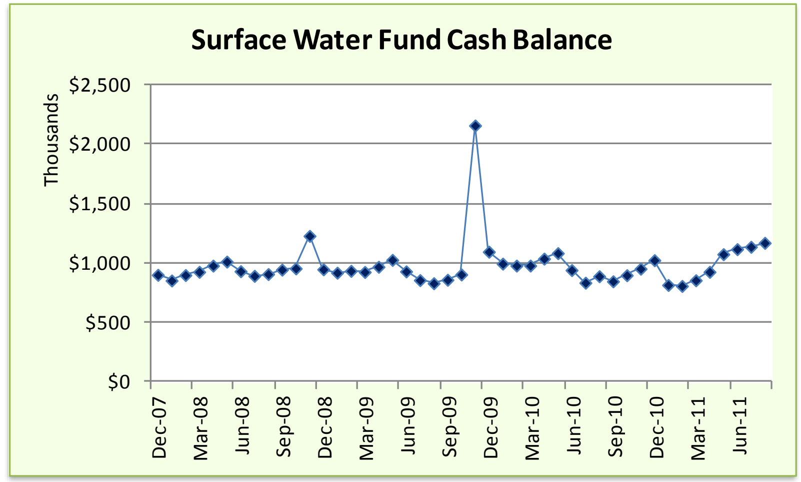
- Contributions for maintenance center debt payments began in 2011

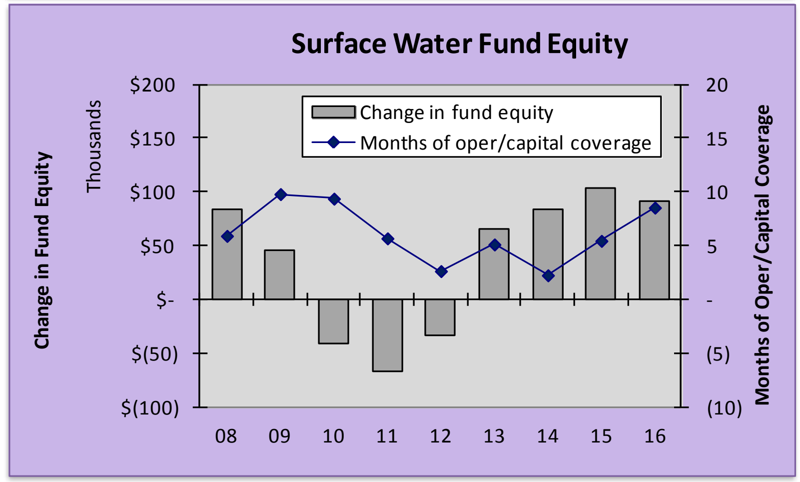
Performance/History

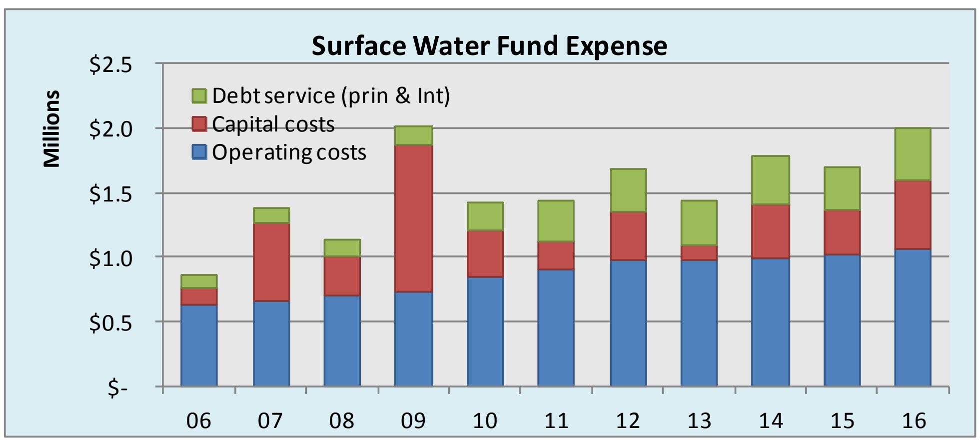
- Operating coverage equal to 5 to 9 months
- Stable cash balances
- Operating increase in each of the last 4 years
- Decrease in overall net assets in 1 of the last 4 years

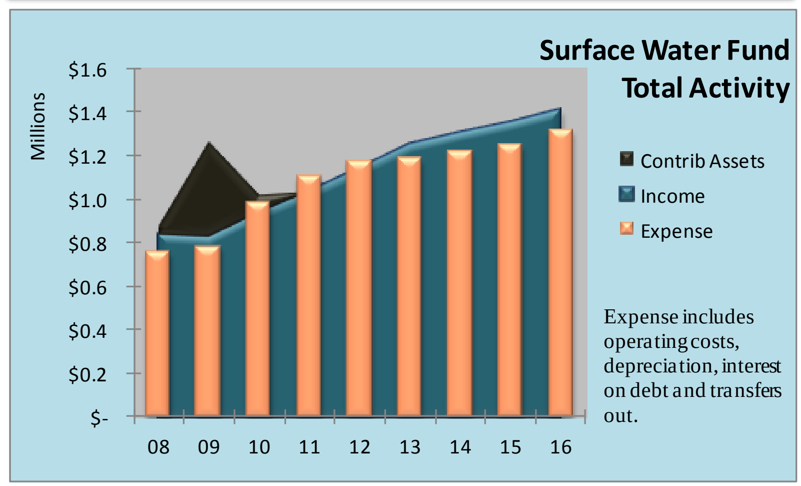
Fund Goals/Targets

- Establish and preserve 6 months operating and capital coverage (excluding timing differences for project costs and debt issuance)
- Expected operating gain in each of the next 5 years, and an overall loss in net assets for 2011 and 2012
- Monitor cash and equity balances closely
- Increase rates to achieve overall gain within 2 years









Surface Water Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Special Assessments	$ 859	$ 937	$ 534	$ -	$ -	$ -	$ -	$ -	$ -
Utility Charges	712,915	784,162	865,432	960,600	1,056,000	1,162,000	1,212,000	1,264,000	1,318,000
Late Fees/Utility Charges	11,051	13,379	14,913	-	-	-	-	-	-
Snail Lake Augmentation Chgs	12,885	10,635	38,835	46,109	48,462	48,101	47,643	48,885	48,463
Other Charges	12,258	-	6,440	5,000	5,000	5,000	5,000	5,000	5,000
Other Revenues	-	-	-	-	-	-	-	-	-
Total Revenue	749,968	809,113	926,154	1,011,709	1,109,462	1,215,101	1,264,643	1,317,885	1,371,463
Expense									
Enterprise Operations	545,758	565,252	656,073	702,138	760,233	756,856	763,550	788,684	819,580
Miscellaneous	362	-	-	-	-	-	-	-	-
Depreciation	159,159	169,816	192,558	208,000	218,000	223,000	228,000	235,000	240,000
Total Expense	705,279	735,068	848,631	910,138	978,233	979,856	991,550	1,023,684	1,059,580
Operating Income (Loss)	44,689	74,045	77,523	101,571	131,229	235,245	273,093	294,201	311,883
Other Sources (Uses)									
Interest Earnings	37,161	17,425	11,235	16,000	24,000	28,000	31,000	25,000	30,000
Contributed Capital Assets	37,063	430,543	79,589	-	-	-	-	-	-
Intergovernmental	50,000	-	161	3,860	3,815	3,750	3,660	3,550	3,400
Debt Service	(48,344)	(26,179)	(90,408)	(92,047)	(85,602)	(75,594)	(88,060)	(77,089)	(101,728)
Transfers Out	-	(20,000)	(40,000)	(97,000)	(107,000)	(126,900)	(136,900)	(141,900)	(151,900)
Net Change	120,569	475,834	38,100	(67,616)	(33,558)	64,501	82,793	103,762	91,655
Fund Equity, beginning	6,772,004	6,892,573	7,368,407	7,406,507	7,338,891	7,305,333	7,369,834	7,452,627	7,556,389
Fund Equity, ending	$ 6,892,573	$ 7,368,407	$ 7,406,507	$ 7,338,891	$ 7,305,333	$ 7,369,834	$ 7,452,627	$ 7,556,389	$ 7,648,044
Months of oper/capital coverage	5.9	9.8	9.4	5.7	2.6	5.1	2.2	5.4	8.5
Cash balance	$ 946,904	$ 1,095,093	$ 1,023,689	$ 728,612	$ 285,988	$ 698,691	$ 296,842	$ 841,623	$ 1,168,159
Capital costs	$ 309,673	$ 1,142,600	$ 362,410	$ 211,667	$ 369,000	$ 121,400	$ 424,100	$ 345,900	$ 541,900
Unspent bond proceeds	$ 8,977	$ 55,314	$ -						
General transfer percent of assets		0.20%	0.38%	0.46%	0.53%	0.64%	0.69%	0.71%	0.73%
Rate Increase (homes)	10.1	10.0	10.0	10.0%	10.0%	10.0%	4.3%	4.3%	4.3%
Change in utility charge revenue	10.2%	10.0%	10.4%	11.0%	9.9%	10.0%	4.3%	4.3%	4.3%
Debt issued	$ 230,000	$ 1,180,000	$ 355,000	$ -	$ -	$ 510,000	$ -	$ 810,000	$ 840,000
Debt payments (principal)	$ 80,000	$ 110,000	$ 130,000	$ 225,000	$ 255,000	$ 260,000	$ 285,000	$ 255,000	$ 300,000
Debt balance (year end)	$ 1,485,000	$ 2,555,000	$ 2,780,000	$ 2,555,000	$ 2,300,000	$ 2,550,000	$ 2,265,000	$ 2,820,000	$ 3,360,000

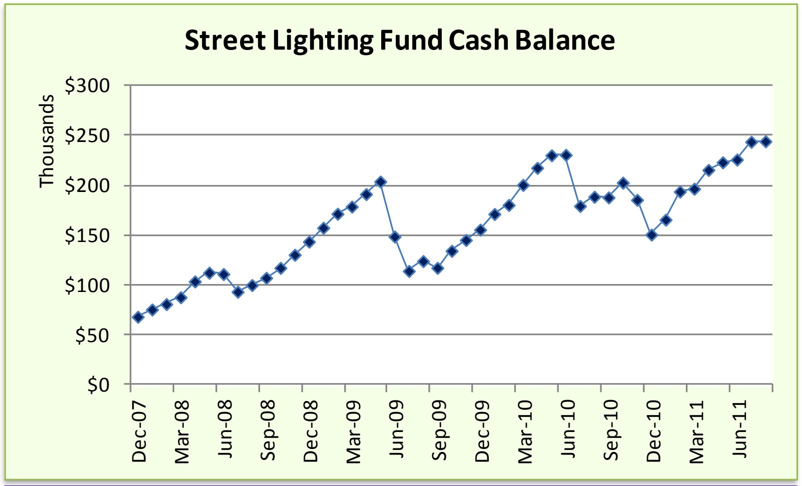
Street Lighting Fund Operations

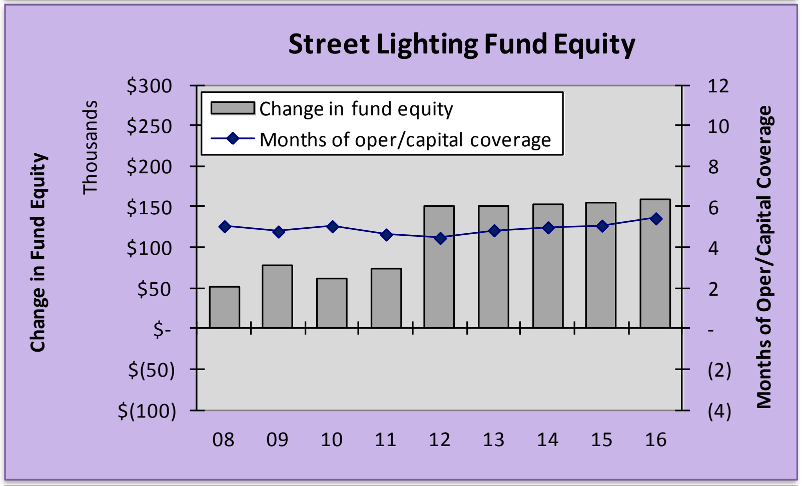
The Street Lighting Fund accounts for street light operations in support of safe vehicle and pedestrian traffic throughout the community. The system includes lights owned by Xcel Energy and the City.

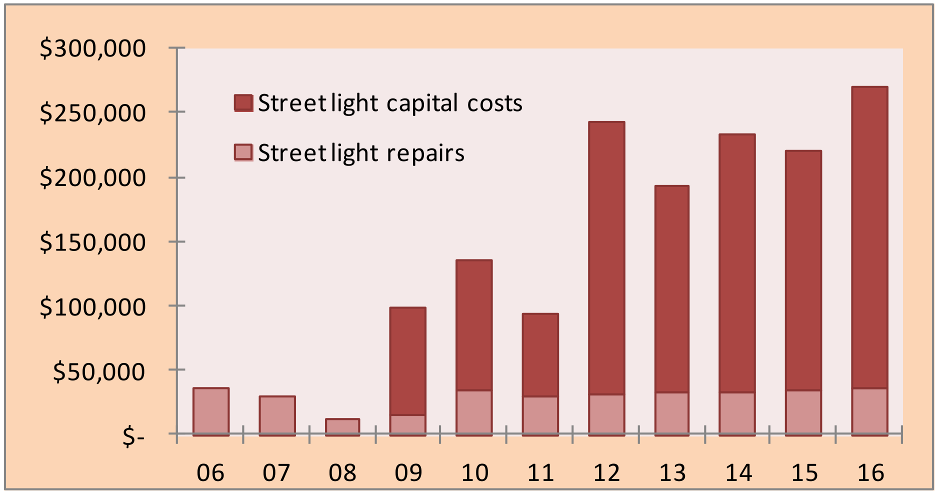
Impacts
- Street light repair and replacement costs place increasing demands on street light fees, largely due to the scheduled replacement of about 30 street lights per year
- Contributions for maintenance center debt repayment began in 2011

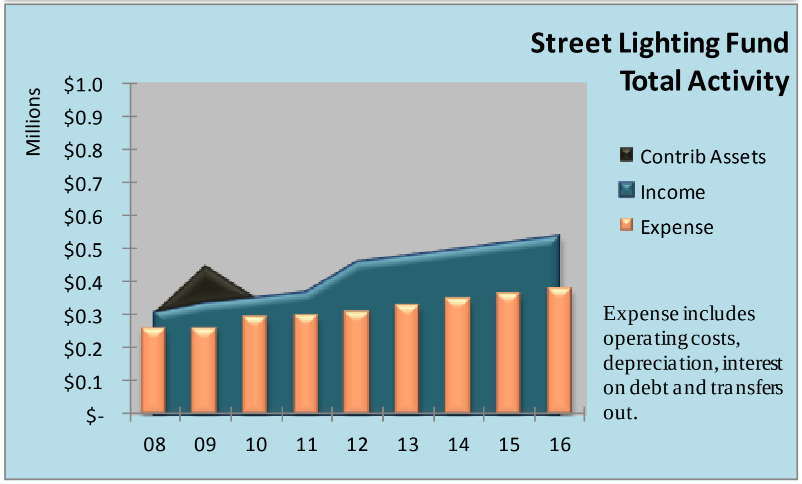
Performance/History
- Fund was created in 2004
- Operating coverage equal to 4 to 5 months
- Operating gain and an increase in net assets in each of the last 4 years

Fund Goals/Targets
- Establish and preserve 6 months operating and capital coverage
- Expected operating and overall gain in each of the next 5 years, which is needed to offset anticipated capital costs (street light replacements)





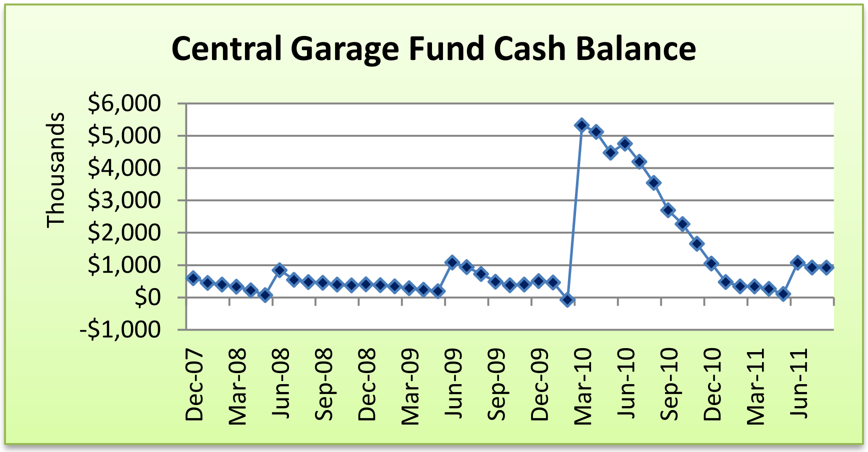




Street Lighting Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Special Assessments	$ 86	$ 144	$ 92	$ -	$ -	$ -	$ -	$ -	$ -
Utility Charges	297,759	327,978	341,265	365,000	456,000	474,000	493,000	513,000	533,000
Late Fees/Utility Charges	4,841	5,925	6,955	-	-	-	-	-	-
Other Revenues	1,011	-	466	500	500	500	500	500	500
Total Revenue	303,697	334,047	348,778	365,500	456,500	474,500	493,500	513,500	533,500
Expense									
Enterprise Operations	218,276	217,103	245,207	242,099	251,740	259,451	267,096	276,186	285,166
Miscellaneous	-	-	26	-	-	-	-	-	-
Depreciation	38,825	38,353	37,911	40,000	40,000	48,000	55,000	60,600	65,000
Total Expense	257,101	255,456	283,144	282,099	291,740	307,451	322,096	336,786	350,166
Operating Income (Loss)	46,596	78,591	65,634	83,401	164,760	167,049	171,404	176,714	183,334
Other Sources (Uses)									
Interest Earnings	3,982	2,445	2,221	2,500	2,500	2,700	2,700	3,000	3,000
Contributed Capital Assets	-	110,000	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-	-
Transfers Out	-	(3,000)	(6,000)	(12,600)	(15,600)	(19,000)	(22,000)	(24,000)	(26,500)
Net Change	50,578	188,036	61,855	73,301	151,660	150,749	152,104	155,714	159,834
Fund Equity, beginning	410,732	461,310	649,346	711,201	784,502	936,162	1,086,911	1,239,015	1,394,729
Fund Equity, ending	$ 461,310	$ 649,346	$ 711,201	$ 784,502	$ 936,162	$ 1,086,911	$ 1,239,015	$ 1,394,729	$ 1,554,563
Months of oper/capital coverage	5.0	4.8	5.0	4.6	4.5	4.8	5.0	5.1	5.4
Cash balance	$ 143,557	$ 155,535	$ 150,597	$ 200,484	$ 181,144	$ 219,893	$ 226,997	$ 258,311	$ 249,145
Capital costs	$ -	$ 82,981	$ 100,799	$ 63,450	$ 211,000	$ 160,000	$ 200,000	$ 185,000	$ 234,000
General transfer percent of assets	0.00%	0.22%	0.41%	0.60%	0.70%	0.76%	0.83%	0.85%	0.83%
Rate Increase	30.0%	10.1%	4.0%	5.0%	5.0%	25.0%	4.0%	4.0%	4.0%

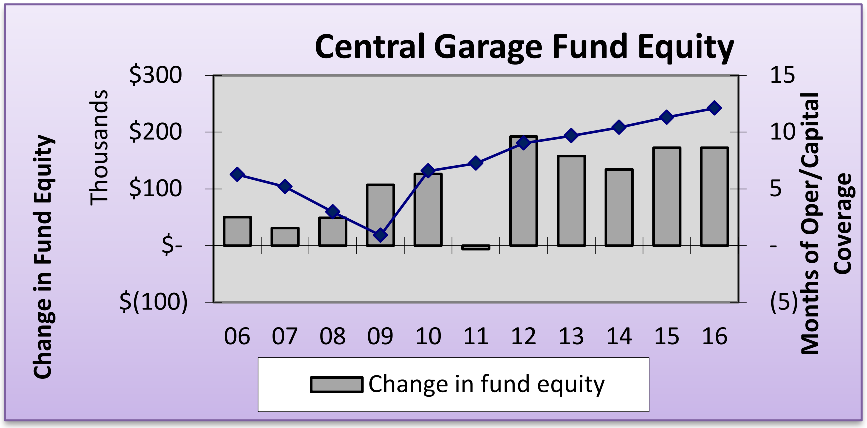
Central Garage Fund Operations

The Central Garage Fund accounts for the operation, replacement and maintenance of the central garage facility (maintenance center) and all equipment. City services supported by the facility pay inter-fund charges that are designed to recover operating costs and provide for future replacements.



Impacts

- Capital costs place increasing demands on inter-fund charges
- Fuel costs doubled from 2005 to 2009, declined sharply in 2010, and are expected to rise between 2% and 4% in the future
- Maintenance center renovation completed in 2010 (bond proceeds received in March of 2010)
- Debt payments for maintenance center debt began in 2011

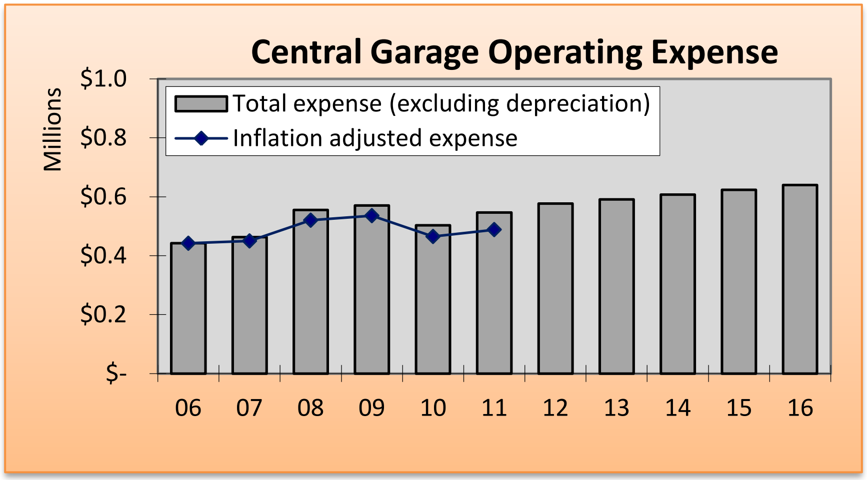


Performance/History

- Operating coverage equal to 3 to 7 months (excluding capital costs for the maintenance center addition)
- Temporary periods of cash decline due to the timing of inter-fund charges and capital costs
- Operating and overall gain in each of the last 4 years

Fund Goals/Targets

- Preserve 6 to 12 months of operating and capital coverage
- Establish inter-fund charges sufficient to generate an operating gain in each of the next 5 years
- Maintain sufficient cash balance to support debt payments prior to receipt of the federal interest credit (the credit is used for a subsequent debt payment)



Central Garage Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Property Taxes	$ -	$ -	$ -	$ 98,000	$ 216,000	$ 184,000	$ 184,000	$ 208,000	$ 208,000
Central Garage Charges	903,653	939,716	1,043,775	1,109,080	1,137,680	1,153,020	1,181,090	1,192,490	1,192,790
Total Revenue	903,653	939,716	1,043,775	1,207,080	1,353,680	1,337,020	1,365,090	1,400,490	1,400,790
Expense									
Central Garage	555,396	569,884	502,790	546,685	576,564	590,407	607,605	623,481	639,873
Depreciation	321,691	334,057	343,307	646,000	673,000	696,000	716,000	715,000	720,000
Total Expense	877,087	903,941	846,097	1,192,685	1,249,564	1,286,407	1,323,605	1,338,481	1,359,873
Operating Income (Loss)	26,566	35,775	197,678	14,395	104,116	50,613	41,485	62,009	40,917
Other Sources (Uses)									
Interest Earnings	16,679	8,532	32,238	25,000	22,000	22,000	22,000	26,000	28,000
Other Revenues	-	2,881	945	-	-	-	-	-	5,000
Sale of Asset-Gain (Loss)	5,483	59,686	914	37,000	12,000	41,000	22,000	34,000	51,000
Contributed Capital Assets	-	-	20,750	-	-	-	-	-	-
Intergovernmental	-	-	94,406	-	120,715	86,530	85,570	83,920	81,840
Debt Service	-	-	(199,899)	(250,112)	(247,157)	(243,128)	(238,054)	(234,187)	(223,862)
Transfers In	-	-	-	180,600	180,600	200,900	200,900	200,900	200,900
Transfers Out	-	-	-	(13,000)	-	-	-	-	(11,000)
Net Change	48,728	106,874	147,032	(6,117)	192,274	157,915	133,901	172,642	172,795
Fund Equity, beginning	3,173,196	3,221,924	3,328,798	3,475,830	3,469,713	3,661,987	3,819,902	3,953,803	4,126,445
Fund Equity, ending	$3,221,924	$3,328,798	$3,475,830	$3,469,713	$3,661,987	$3,819,902	$3,953,803	$4,126,445	$4,299,240
Months of oper/cap coverage [1]	3.0	0.9	6.6	7.2	9.0	9.7	10.4	11.3	12.1
Cash balance	$ 407,962	$ 505,373	$1,049,876	$1,212,962	$1,540,885	$1,666,564	$1,795,696	$1,977,292	$2,133,967
Capital costs	$ 503,511	$ 751,727	$5,775,049	$ 462,798	$ 511,500	$ 518,000	$ 505,000	$ 497,000	$ 506,000
Interfund charges percent change	19.3%	4.0%	11.1%	6.3%	2.6%	1.3%	2.4%	1.0%	0.0%
Average annual percent change				9.1%					1.2%
Debt issued	$ -	$ -	$5,615,000	$ -	$ -	$ -	$ -	$ -	$ -
Debt payments (principal)	$ -	$ -	$ -	$ -	$ 100,000	$ 245,000	$ 245,000	$ 250,000	$ 255,000
Debt balance (year end)	$ -	$ -	$5,615,000	$5,615,000	$5,515,000	$5,270,000	$5,025,000	$4,775,000	$4,520,000

[1] Excluding maintenance center expansion project

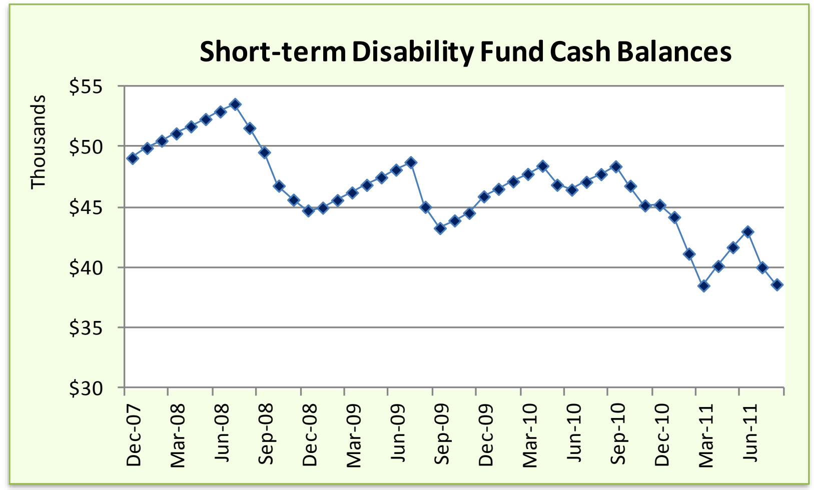
Short-term Disability Fund Operations

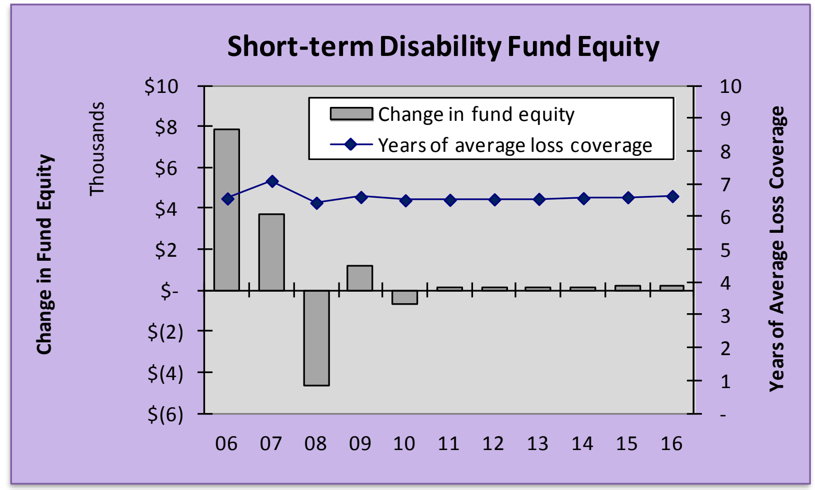
The Short-term Disability Fund accounts for premiums received and losses incurred in providing short-term disability insurance benefits to regular employees on a self-insured basis. Monthly premiums are paid by employees through payroll deduction.

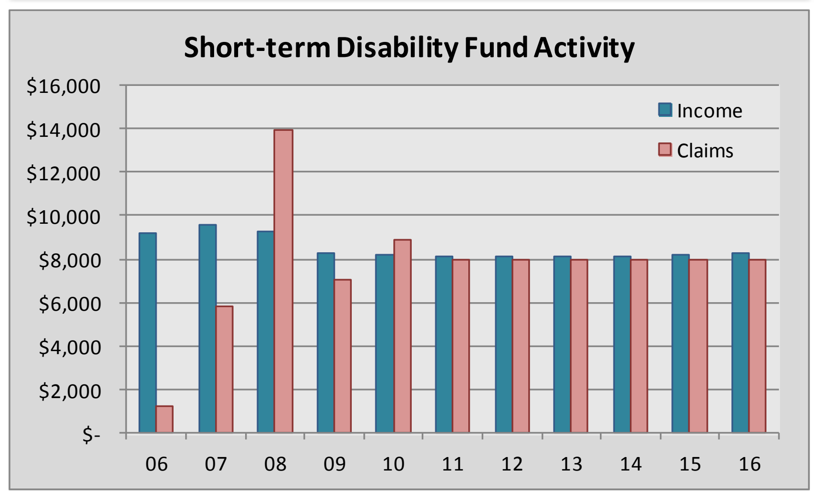
Impacts
- Losses vary greatly between fiscal years, due to the number and length of employee absences resulting from temporary disabilities
- Monthly premiums have remained at $8 per employee per month since 1999

Performance/History
- Net assets provide approximately 6 years of average loss coverage
- Premiums and fund balances have been sufficient to offset historical losses

Fund Goals/Targets
- Monitor and evaluate claims and net asset balances for potential premium adjustments (reductions or increases) in the future
- Preserve a minimum of 3 to 4 years average loss coverage







Short-term Disability Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Charges for Services	$ 7,352	$ 7,530	$ 7,612	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 7,500	$ 7,500
Interest Earnings	1,942	733	545	600	600	600	650	700	750
Total Revenue	9,294	8,263	8,157	8,100	8,100	8,100	8,150	8,200	8,250
Expense									
Miscellaneous									
Personal Services (claims)	13,935	7,039	8,857	8,000	8,000	8,000	8,000	8,000	8,000
Total Expense	13,935	7,039	8,857	8,000	8,000	8,000	8,000	8,000	8,000
Net Change	(4,641)	1,224	(700)	100	100	100	150	200	250
Fund Equity, beginning	49,306	44,665	45,889	45,189	45,289	45,389	45,489	45,639	45,839
Fund Equity, ending	$ 44,665	$ 45,889	$ 45,189	$ 45,289	$ 45,389	$ 45,489	$ 45,639	$ 45,839	$ 46,089
Years of average loss coverage [1]	6.4	6.6	6.5	6.5	6.5	6.5	6.6	6.6	6.6
[1] Using inflation adjusted average annual claims									
Monthly premium	$ 8.00	$ 8.00	$ 8.00	$ 8.00	$ 8.00	$ 8.00	$ 8.00	$ 8.00	$ 8.00
Participants (annual average)	76.6	78.4	79.3	78.1	78.1	78.1	78.1	78.1	78.1

Liability Claims Fund Operations

The Liability Claims Fund accounts for losses not covered by insurance deductibles. Dividends received annually from the League of Minnesota Cities Insurance Trust are deposited into this fund to cover future losses.

Impacts

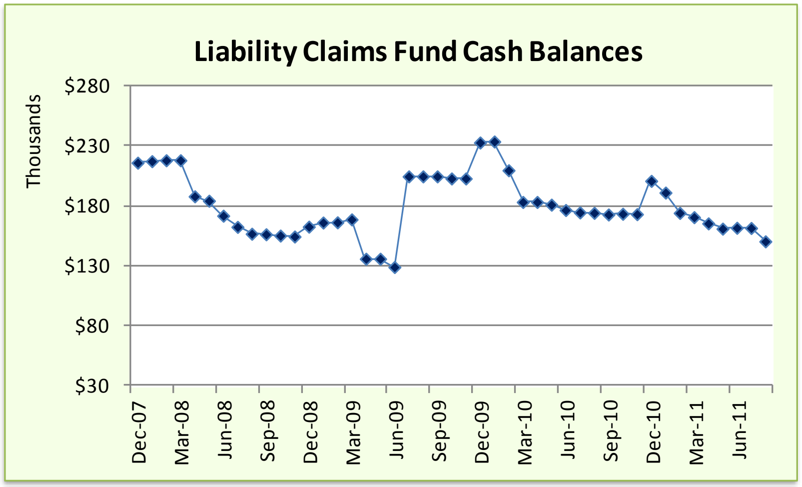
- Losses from internal and outside claims vary between fiscal years due to the number and type of claims

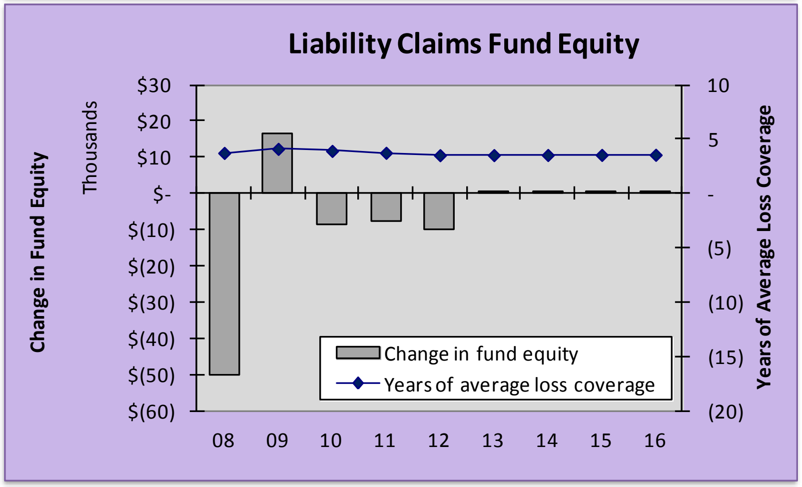
Performance/History

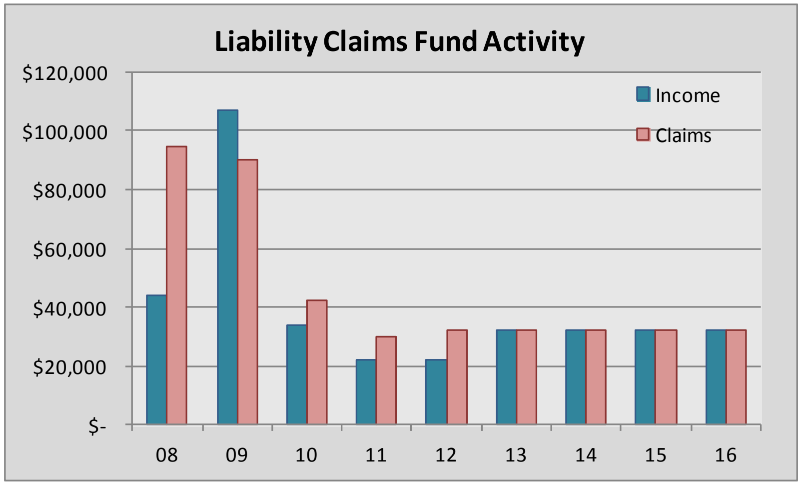
- Higher than normal losses in 2008 and 2009
- Insurance claims surcharge assessed to operating funds in 2009 to restore fund equity
- Net assets provide 3 to 4 years of average annual loss coverage

Fund Goals/Targets

- Monitor and evaluate claims and net asset balances for periodic claims surcharge
- Preserve a minimum of 2 years average annual loss coverage







Liability Claims Fund	2008 Actual	2009 Actual	2010 Actual	2011 Estimate	2012 Budget	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Revenue									
Charges for Services	$ -	$ 70,114	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest Earnings	7,064	2,853	2,211	2,200	2,200	2,400	2,400	2,400	2,400
Other Revenues	37,064	33,865	31,760	20,000	20,000	30,000	30,000	30,000	30,000
Total Revenue	44,128	106,832	33,971	22,200	22,200	32,400	32,400	32,400	32,400
Expense									
Miscellaneous	94,513	90,112	42,392	30,000	32,000	32,000	32,000	32,000	32,000
Total Expense	94,513	90,112	42,392	30,000	32,000	32,000	32,000	32,000	32,000
Other Sources (Uses)									
Net Change	(50,385)	16,720	(8,421)	(7,800)	(9,800)	400	400	400	400
Fund Equity, beginning	217,126	166,741	183,461	175,040	167,240	157,440	157,840	158,240	158,640
Fund Equity, ending	$ 166,741	$ 183,461	$ 175,040	$ 167,240	$ 157,440	$ 157,840	$ 158,240	$ 158,640	$ 159,040
Years of average loss coverage	3.7	4.1	3.9	3.8	3.5	3.5	3.5	3.6	3.6
[1] Using inflation adjusted average annual claims									

Index

Shoreview

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In an emergency ....Dial 911
Ramsey County Sheriff, non-emergency............651-484-3366

Lake Johanna Fire Dept, non-emergency...........651-481-7024

TO: Terry Schwerm, City Manager
Mayor and City Council

FROM: Jeanne A. Haapala, Finance Director

DATE: December 5, 2011

RE: Utility Rate Adjustment

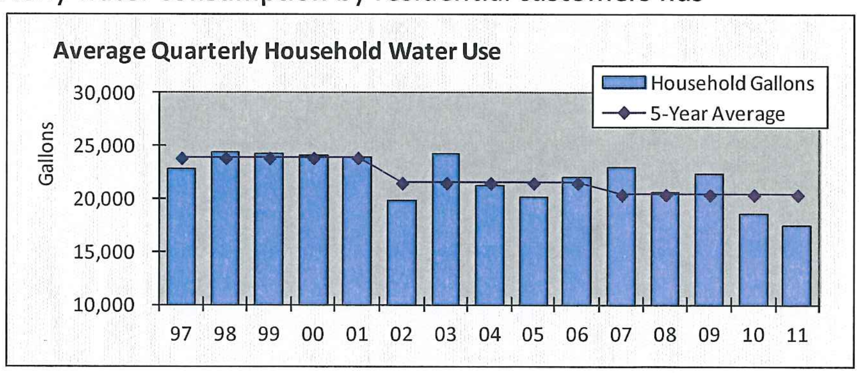
INTRODUCTION

Each year a financial analysis of utility funds is conducted to consider changes in utility rates for the coming year. The analysis considers cash balances, debt levels, debt payments (current and future), operating costs, growth projections (new connections), water consumption trends, sewage flows, capital costs (additions, repairs and replacements) and maintenance strategies.

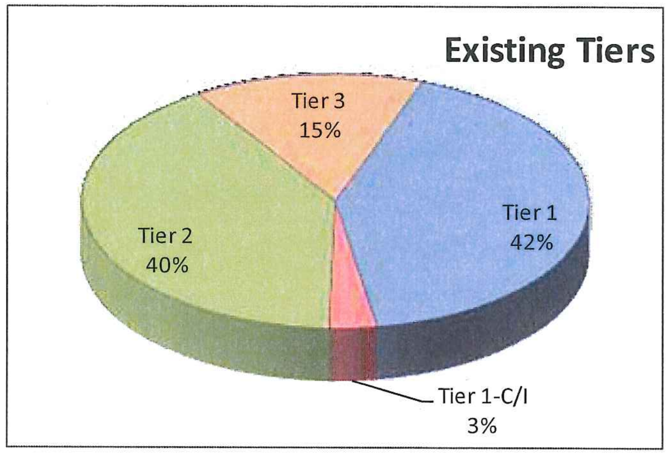
WATER OPERATIONS

In recent years it has become increasingly clear that a combination of weather (rainfall), an aging population, and changes in consumption habits have contributed to an overall decline in average water usage. Although the City expects variations in water consumption from year to year (due to rainfall fluctuations), the overall trend is toward reduced consumption levels.

<u>Water Use Trends</u> - Average quarterly water consumption by residential customers has been in a downward trend since the late 1990s. Average quarterly use for the years 1997 to 2001 was 23,842 gallons, and declined to 21,490 gallons (10% lower) in the years 2002 to 2006. In the last 5 years average quarterly use declined an additional 5% to 20,477 gallons.



Unfortunately, fewer gallons sold has little impact on operating costs because the primary water cost related to gallons sold is for electricity, which represents only 9% of Water Fund operating costs.



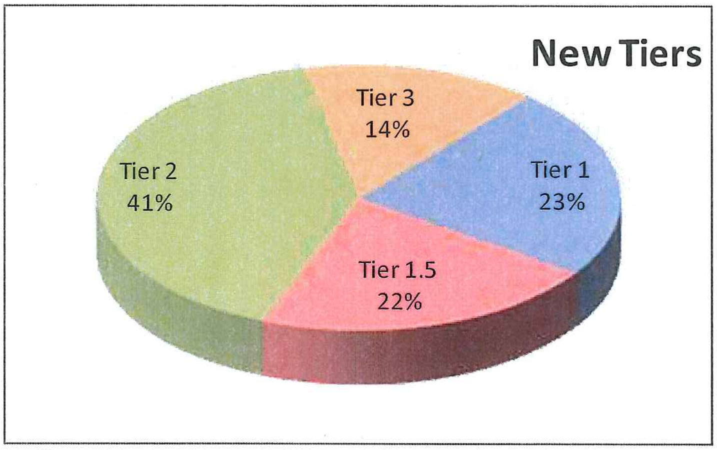
Gallons Billed by Tier - An examination of gallons billed by tier shows that 42% of water is billed at the lowest residential water tier. This makes it challenging to generate enough water revenue to cover operating costs.

Water Rates - Despite a 7.5% water rate increase in 2010, and a 10% increase for 2011, water revenue has not caught up to operating costs and is expected to fall 8% below budgeted revenue. As a result, staff recommends a more aggressive change for 2012, to finally close the gap between water revenue and expense.

- Increase the water availability charge from $11 per quarter to $13 per quarter. This change will add a little certainty back into the water rate structure by generating an additional $85,000 of revenue that is not tied to water use.
- Decrease the gallons billed in tier 1 to 5 thousand gallons, and increase the tier 1 water rate by 3-cents per thousand gallons.
- Add a new water tier between the old residential tier 1 and 2, and bill the second 5 thousand gallons at $1.69 per thousand gallons (the same rate as the C/I tier 1 rate). This change shifts about 158,000 gallons from tier 1 to the new tier 2.
- Increase the old tier 2 rate (which now becomes tier 3) by 29-cents per thousand gallons.
- Increase the old tier 3 rate (which now becomes tier 4) by 59-cents per thousand gallons.

Residential						
2011 Rates			2012 Rates			
	Gallons	Rate		Gallons	Rate	Basis
Avail chg		$ 11.00	Avail chg		$ 13.00	Per unit
Tier 1	10,000	$ 1.01	Tier 1	5,000	$ 1.04	Per thousand gallons
	-		Tier 2	5,000	$ 1.69	Per thousand gallons
Tier 2	20,000	$ 2.05	Tier 3	20,000	$ 2.34	Per thousand gallons
Tier 3	remainder	$ 3.25	Tier 4	remainder	$ 3.84	Per thousand gallons

Commercial/Industrial						
2011 Rates			2012 Rates			
	Gallons	Rate		Gallons	Rate	Basis
Avail chg		$ 11.00	Avail chg		$ 13.00	Per unit
Tier 1	50,000	$ 1.54	Tier 1	50,000	$ 1.69	Per thousand gallons
Tier 2	1,150,000	$ 2.05	Tier 2	1,150,000	$ 2.34	Per thousand gallons
Tier 3	remainder	$ 3.25	Tier 3	remainder	$ 3.84	Per thousand gallons



The pie chart at right shows how gallons are redistributed in the proposed new tiers.

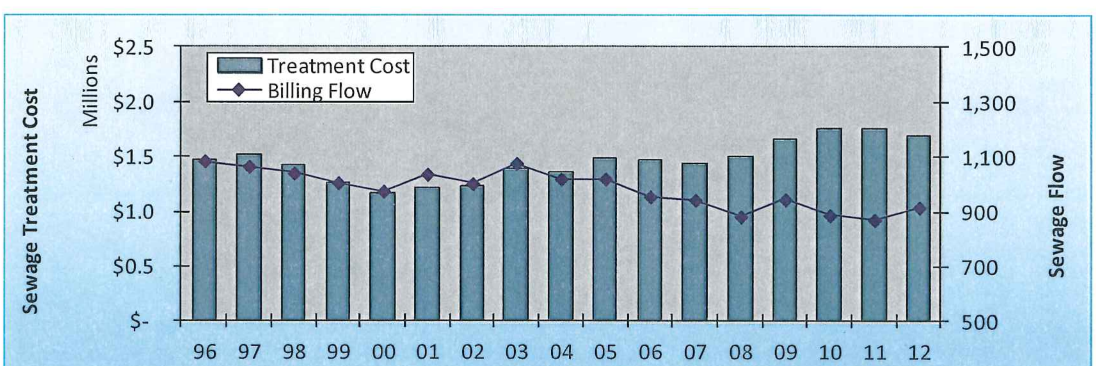
Base Gallons - For two decades the City has used a "base year" approach for estimating the gallons of water sold. The theory behind this approach is that it enables the City to set rates at levels that support operations, without allowing temporary fluctuations in revenue to increase the gallon projections. Unfortunately, declining water use (partly due to weather and partly due to changing consumption patterns) has become a trend rather than a temporary fluctuation. Even though the City has reduced base year gallon estimates in each of the last 3 years, water consumption has declined faster. For 2012 Water Fund projections assume another 8% drop in base year gallons (the gallons used to compute revenue estimates).

Water Projections - The water rates outlined on the previous page should sufficiently cover water costs next year at the new base gallon level, and are projected to generate a slight net profit for the year.

SEWER OPERATIONS

Sewage Flow - Sewage flow is metered by MCES on a quarterly basis, and is used to compute the City's sewage treatment bills in the following year. The table at right and the graph below show a history of sewage flow and treatment cost. It is important to note that sewage flow is impacted by water consumption as well as rainfall, because heavy extended periods of rain can increase groundwater infiltration. For 2012, a sewage flow decrease of 5% and a rate decrease of 8.5%, results in nearly a $65,000 reduction in sewage treatment costs for 2012.

Year	Billing Flow (millions)	Rate Per Million Gallons	Annual Cost (millions)
2005	1,019	$ 1,465	$ 1.492
2006	955	$ 1,543	$ 1.472
2007	943	$ 1,527	$ 1.438
2008	883	$ 1,697	$ 1.497
2009	945	$ 1,754	$ 1.657
2010	888	$ 1,981	$ 1.758
2011	871	$ 2,026	$ 1.764
2012	917	$ 1,854	$ 1.699



Sewer Rates - The reduction in sewage treatment costs means the City can hold sewer rates the same for 2012, which will help mitigate the impact of higher water rates. Recommended residential quarterly sewer rates are as follows (the same as in 2011):

Description		Avail Chg	Use Chg	Total Chg
Tier 1	< 5,000 gallons	$ 35.76	$ 15.11	$ 50.87
Tier 2	From 5,000 to 10,000 gallons	$ 35.76	$ 26.02	$ 61.78
Tier 3	From 10,000 to 20,000 gallons	$ 35.76	$ 39.90	$ 75.66
Tier 4	From 20,000 to 30,000 gallons	$ 35.76	$ 54.26	$ 90.02
Tier 5	More than 30,000 gallons	$ 35.76	$ 70.50	$ 106.26

Sewer Projections - The proposed sewer rates outlined above are projected to be sufficient to cover 2012 estimated operating costs, and generate a slight net profit for the year.

SURFACE WATER OPERATIONS

Surface Water Rates - Projected operating costs, debt payments, and capital costs indicate the need for a 10% adjustment to surface water rates for 2012. The single-family rate will increase $1.60 per quarter, the multi-family rate will increase $1.69 per quarter, and the rate for all other customers will increase $13.36 per acre per quarter.

Description	2011	2012	Basis
Single-family	$ 15.97	$ 17.57	Per unit
Multi-family	$ 16.92	$ 18.61	Per unit
All other	$ 133.58	$ 146.94	Per acre

Surface Water Projections - Despite the proposed surface water rates outlined above, projections indicate the Surface Water Fund will likely experience a slight loss for 2012, and are expected to generate a profit by 2013. Surface Water Fund cash balances are sufficient to offset the loss for one year.

STREET LIGHTING OPERATIONS

Street Lighting Rates - Estimated operating costs, substantially higher capital costs and low cash balances indicate the need for a larger adjustment to street lighting rates for 2012. The residential rate will increase $1.82 per unit quarter; the condominium, apartment and mobile home rate will increase $1.37 per unit per quarter; and the rate for all other customers will increase $5.47 per acre per quarter.

Description	2011	2012	Basis
Residential	$ 7.29	$ 9.11	Per unit
Condo,apartment and mobile home	$ 5.46	$ 6.83	Per unit
All other	$ 21.86	$ 27.33	Per acre

Street Lighting Projections – Despite the projected operating surplus for 2012, the Street Lighting Fund will likely experience a drop in cash balances for 2012 due to planned capital costs of $211,000.

IMPACT ON RESIDENTIAL CUSTOMERS

The change in the total utility bill will vary based on the amount of water used by each customer, and by the type of customer. To put the rate change into perspective, two tables are presented to estimate the change on residential customers at various water usage levels.

For the average residential customer (using an average of 17,500 gallons of water per quarter, and 12,000 gallons of in the winter) the total utility bill will increase $11.14 per quarter. The majority of the increase is for water charges.

Average User	2011	2012	Change
Water	$ 36.48	$ 44.20	$ 7.72
Sewer	75.66	75.66	-
Surface water	15.97	17.57	1.60
Street lighting	7.29	9.11	1.82
State fee	1.59	1.59	-
Total	$ 136.99	$ 148.13	$ 11.14

The next table shows the change in the utility bill for residential customers at 6 different usage levels. Customers with the lowest usage receive a smaller increase in cost than customers with higher usage levels. The second column of the table shows the percentage of residential customers that fall within each usage level.

Use Level	% of Homes	Water Gallons	Sewer Gallons	Total Utility Bill 2011	Total Utility Bill 2012	Change in Quarterly Bill	Percent Change
Very low	10%	5,000	4,000	$ 91.77	$ 97.34	$ 5.57	6.1%
Low	22%	10,000	8,000	$ 107.73	$ 116.70	$ 8.97	8.3%
Average	42%	17,500	12,000	$ 136.99	$ 148.13	$ 11.14	8.1%
Above avg	19%	25,000	22,000	$ 166.72	$ 180.04	$ 13.32	8.0%
High	5%	55,000	26,000	$ 258.22	$ 287.74	$ 29.52	11.4%
Very high	2%	80,000	34,000	$ 355.71	$ 399.98	$ 44.27	12.4%

SUMMARY

The operating projections contained in the Five Year Operating Plan (FYOP), also presented to the City Council with this agenda, were prepared based on the rate increases recommended in this memo. Staff is presenting this information to the City Council at the workshop in advance of preparing a recommendation for adoption at the December 18, 2011 regular Council Meeting.

TO: Terry Schwerm, City Manager
Mayor and City Council

FROM: Fred Espe, Assistant Finance Director

DATE: December 7, 2011

RE: Proposed Budget Policy

Bond-rating agencies and auditors generally prefer formal budget policies. The City's recent decision to adopt a biennial budget process further suggests that a formal budget policy would be beneficial. The policy addresses budget preparation, timeframes, content, and management of the City's biennial operating budget and capital improvement plan, and provides guidance for the City's five year operating plan. In addition to the adoption of this policy, it is important to note that State statutes also provide guidance and procedures for the City's biennial operating budget.

Many governments have moved to multiyear budgets. Some of the major advantages of a two-year budget include:

- Reduces staff time devoted to budget development
- Improves the long-term planning and priority setting process
- Enhanced management of financial resources
- Encourages a more policy and goal oriented budget process

The City will develop a two-year spending document (biennial budget) for all operating funds every two years. Even though the appropriations are made for two individual years, the City will consider the tax levy on an annual basis. The City will only have the authority to expend the appropriations for the first year of the biennial budget. The second year of the biennial budget becomes spendable once it is reaffirmed or amended through Council resolution. At the end of the first year, a mid-cycle review is required. During the review period, budget amendments and adjustments may be made to reflect changes in financial conditions, programs and/or authorizing laws that affect ongoing expenditures. Following this review, the second year appropriations will be formally reaffirmed or amended through Council resolution along with the second year tax levy.

Summary

Staff is seeking City Council feedback on the proposed budget policy prior to its adoption on December 19, and before adoption of the City's first biennial budget.

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Budget Policy,
City of Shoreview, Minnesota
Effective December XX, 2011

Policy Statement

The City of Shoreview recognizes the important of long-range financial planning to ensure the provision of quality services and programs to residents, as well as to plan for the timely construction and replacement of the City's infrastructure. The City also recognizes that proactive financial planning covering a minimum of 5 years will assist the City Council in implementation of their goals and objectives and in achieving their future vision for the City. This policy outlines how Shoreview will formally document its financial plans and goals for the future through a biennial budget and multi-year plans. Formal documents associated with this policy include the City's Biennial Operating Budget and Capital Improvement Plan and, Five-year Operating Plan.

Purpose

The primary objective of this budget policy is to establish minimum requirements for budget preparation and timeframes, content, and management. Policy guidelines relating to each formal budget document will be addressed separately within this policy.

Policy Guidelines

Biennial Operating Budget

- **Budget Preparation and Timeframes -**
  - City Budget Process. Effective with the 2012/2013 biennial budget and thereafter, the annual budget process shall be replaced by a biennial budget process.
  - Odd Years. In each odd-numbered calendar year, starting in 2011, the Council shall adopt a budget for the following year in accordance with state statutes, and endorse a budget for the next ensuing odd-numbered year.
  - Even Years. In each even-numbered calendar year, starting in 2012, the Council shall, with the advice and assistance of the City Manager and Finance Director, review and formally reaffirm or revise the previously endorsed budget the a new budget resolution for the ensuing year in accordance with state statutes.
  - Strategic Plan. The City Council will provide direction at the start of each budget cycle to ensure consistency with City Council Goals and Objectives.
  - Budget Information. Department Directors have primary responsibility for formulating budget proposals that support the priorities and direction provided by the City Council, and for implementing them once they are approved.
  - Document Analysis. The Finance Department is responsible for coordinating the overall preparation and administration of the City's budget, as well as assisting departments in identifying budget problems, formulating solutions and alternatives, and implementing any necessary corrective actions.

- **Budget Content –**
  - Goals and Objectives. The biennial operating budget provides the Council with a means to address budgetary planning over a longer time frame than the traditional annual budget process. This approach permits the Council to focus on longer term policy issues and goals, while staff manages any near term financial uncertainties.
  - Funds included. Operating budgets are formally adopted through the budget document for the General, Special Revenue, Debt Service, Utility, and Internal Service Funds, and are legally adopted for the General and Special Revenue Funds by resolution.
  - Basis of accounting. Budgets are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America.

- **Budget Management –**
  - Budget Monitoring. The Finance Department will maintain a system for monitoring the City's budget performance. This system will provide the City Council and Department Directors with monthly presentations regarding fund level revenues and department level expenditures. The Department Directors have primary responsibility for monitoring and managing their annual adopted budget, and have daily access to resource and expenditure activity, and budget to actual comparisons through the City's accounting system.
  - Re-appropriating Prior Year Funds. All appropriations lapse at the end of any fiscal year. Amounts authorized during the fiscal year to pay for goods and services not received or completed by the end of the fiscal year may be re-appropriated to the next year by resolution.
  - Amending the Budget. City Council approval by resolution is required to adjust appropriations between departments or between funds, and to authorize budget additions and deletions. The City Manager is authorized to transfer appropriations within any department budget.
  - Coding. Revenues and expenditures shall be coded to the appropriate account code and not to an account where an excess or deficiency of funds may exist.

Five Year Operating Plan

- **Budget Preparation and Timeframes –**
  - City Budget Process. To prepare a five year operating plan for each of the City's biennial budget years, and to update those plans at least biennially.
  - Timing of budget process. The five year operating plan will be prepared and updated in conjunction with the City's biennial budget schedule.
  - Budget Information and Document Analysis. The responsibility for budget information and document analysis is the same as that of the biennial budget.

- **Budget Content –**
  - Goals and Objectives. The City of Shoreview must forecast its financial needs in order to avoid serious deficiencies or over-commitments to programs and projects. Establishing a long-range financial plan and minimum reserve levels will assist in accomplishing the City's goals and objectives and provide for orderly delivery of services to the citizens of Shoreview.
  - Funds included. Five Year Operating Plans are adopted for the General, Special Revenue, Debt Service, Utility, and Internal Service Funds.
  - Fund goals/targets. The five year operating plan will establish fund goals and targets that are specific and meaningful to each individual fund.
  - Basis of accounting. Budgets are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America.

- **Budget Management –**
  - Future appropriations. When approval of additional appropriations is requested of Council the effect on the long-range financial plan should be considered. Appropriations that would cause a fund to fall outside of established goals/targets will require a plan to be submitted with a reasonable time frame to reestablish the fiscal stability of the fund's financial position.
  - Compliance. When a fund fails to meet its goals/targets the City shall establish a plan with a reasonable time frame to bring the fund into compliance.

Capital Improvement Plan (CIP)

- **Budget Preparation and Timeframes –**
  - City Budget Process. To prepare a five year CIP for each of the City's biennial budget years, and to update those plans at least biennially.
  - Timing of budget process. The five year CIP will be prepared and updated in conjunction with the City's biennial budget schedule. Future expenditures associated with new capital improvements will be projected and included in the biennial and five year operating plan budgets.
  - Budget Information and Document Analysis. The responsibility for budget information and document analysis is the same as that of the biennial budget.

- **Budget Content –**
  - Goals and Objectives. The CIP reflects the City's assessment of community needs and the ability to pay for major improvements, and is guided by the belief that reinvestment for replacement, maintenance or increased efficiency of existing systems shall have priority over expansion of existing systems or the provisions of new services.
  - Funds included. The CIP will include all capital costs incurred in Capital Project, Enterprise, and Internal Service Funds.

- **Budget Management –**
  - Planning. The CIP represents a tentative commitment to proceed with planned future projects, the commitment is more certain in early years and becomes increasingly more tenuous in subsequent years. Regardless, the CIP represents the City's plan and priority for capital spending, and provides a framework for projected tax levies and utility rates.