

**Red Wing City Council
Budget Workshop
City Council Chambers
September 12, 2018**

Members Present: Council President Kim Beise; Council Members Dean Hove, Evan Brown, Ralph Rauterkus, Becky Norton, and John Becker

Members Absent: All members were present

Others Present: Sean Dowse, Mayor; Kay Kuhlmann, Council Administrator; Marshall Hallock, Administrative Business Director; Roger Pohlman, Police Chief; Shannon Draper, Fire Chief; Dan Rogness, Community Development Director; Ron Rosenthal, Engineering Director; Rick Moskwa, Public Works Director; Keith Schlichting, Finance Manager; Randal Hemmerlin, HRA Director; Laura Blair, Administrative Services Director; Jay Owens, City Engineer; Jessica McGee, Library Director; Lynn Nardinger, Deputy Director Public Works – Public Services; Shawn Blaney, Deputy Director Public Works – Buildings and Grounds; Ron Seymour, Capital Investment Program Coordinator; Michelle Leise, Community Engagement Specialist; Janet Brandt; Gene Grave; Susan Richardson; Dawn Zero Erickson; Burke Murphy; Amy Smith

1. Call to Order

The workshop was called to order at 5:30 p.m. by Council President Kim Beise.

2. Review Updated Levy Information

Council Administrator Kuhlmann welcomed the workshop attendees. She stated that the purpose of the workshop would be to focus in on the levy. She stated that, once the Council sets the preliminary tax levy, it can be decreased but cannot be increased. She stated that in the past the final levy has been lowered as a result of finding additional savings or making budget cuts. She noted that the preliminary levy needs to be set by the end of September, with the final levy and budget being approved in December.

Administrator Kuhlmann referenced the staff report, which indicates that residential property valuations have increased an average of 14 percent, while the overall tax capacity of the Prairie Island Nuclear Generating Plant has gone down. She also described the upcoming Red Wing School District referendum as a significant factor.

Administrator Kuhlmann referenced past discussion of the options and noted that the preliminary budget has been built around Alternate #4. She stated that, although additional budget cuts would make the process more challenging, the Council should not feel pressure to balance the budget at this point in the process, adding that there are still a lot of unknown variables.

Administrative Business Director Hallock provided additional background information and described the current tax capacity situation as atypical.

Mayor Sean Dowse requested clarification of how the tax capacity and the tax rate impact levy revenue. Director Hallock provided additional information in this regard.

Director Hallock reviewed Alternate #4 in more detail. He discussed the impacts on residential property, stating that under this option the property taxes on a median value home would increase by 2.5 percent, or approximately \$61 annually.

Director Hallock discussed the tax impacts on public utility property, which under Alternate #4 would decrease by 17 percent, or approximately \$2.3 million from 2018 to 2019.

Director Hallock reviewed property tax impacts on commercial/industrial property under Alternate #4.

Director Hallock discussed property tax impacts under some of the other alternates.

Director Hallock summarized property tax impacts for residential, commercial/industrial, and utility properties under Alternate #4, noting that there is wide variation among property classes and also within the residential property classes. Director Hallock explained how residential property tax variation is impacted by the market value homestead exclusion. Council Member John Becker asked whether this contributes to the affordable housing issue. Director Hallock commented that lower valued homes benefit more from the homestead exclusion.

Council Member Ralph Rauterkus asked whether residential market value increases are limited to Goodhue County, or are more of a regional or statewide situation. Director Hallock stated his impression that this appears to be a market correction as a result of property values recovering since the last recession. He discussed the process used by Goodhue County to determine property valuations.

Administrator Kuhlmann highlighted changes that have been made to the preliminary budget since the last budget workshop. She reiterated that the draft budget has been based on Alternate #4, which meant that staff needed to address a gap of approximately \$2.4 million. She discussed adjustments to the revenue side of the budget, including investment income and cable franchise agreements.

Administrator Kuhlmann reviewed potential budget adjustments to expenditures, including fund transfers, funding for Downtown Main Street, and funding toward a job classification and compensation study.

Council Member Rauterkus asked whether the job study is a requirement. Administrator Kuhlmann indicated that the City is not required to complete a job study per a specific timeframe, noting that it has been about 15 years since the last study was done.

Administrator Kuhlmann reviewed cost savings related to changing two special project manager positions from full-time to part-time status. She discussed a program offered by the Public Employee Retirement Association (PERA) that allows employees to go from full-time to part-time.

Administrator Kuhlmann discussed funding of the Downtown conservancy project and a recommendation to not allocate funding in 2019. She noted that \$800,000 has been previously allocated toward this project.

Administrator Kuhlmann referenced other budget reductions.

Mayor Dowse commented that the final budget does not need to be determined at this point. Administrator Kuhlmann expressed agreement with this comment, adding that other cost-saving measures can be discussed. Council Member John Becker commented that the draft budget reflects a \$250,000 deficit under Alternate #4. Administrator Kuhlmann stated that there may be capital projects that could be delayed. She also discussed the option of using fund reserves to bridge the gap.

Director Hallock commented that there are items that have not been included in the budget, such as employee expenses related to union negotiations and health insurance costs. He reiterated that the final budget will not need to be approved until early December.

Council Member Rauterkus asked about the current fund balance. Director Hallock estimated an aggregate fund balance of approximately \$26 million. He added that some of this funding is not expendable. He indicated that he will provide additional details during the next Council meeting with regard to the fund balance and its purposes.

Council Member Rauterkus asked about the fund balance percentage. Director Hallock indicated that he will also provide this information.

Director Hallock commented that the City's financial situation is entering into a period of more uncertainty, especially in terms of public utility impacts. He cautioned against utilizing the fund balance in the short term, as this may be needed in the long term.

Council Member Dean Hove asked about the current policy relating to maintaining a certain fund balance percentage. Director Hallock discussed the City's need to maintain a fund balance to cover its operations, as property tax revenue is only received twice per year. He stated that the City's current policy is to maintain a fund balance of 60 percent of budgeted expenditures. Council Member Becker stated his recollection that the fund balance at the end of last year was approximately 70 percent.

Council Member Becker asked about the Public Utilities Commission's role in establishing the nuclear plant valuation and how this situation can be prevented in the future.

Director Hallock reviewed how public utility property values are determined and discussed obsolescence charges. He noted that these kinds of charges are atypical and infrequent. Council Member Evan Brown requested additional information relating to the obsolescence charge. Director Hallock discussed the difference between an obsolescence charge and routine depreciation.

Council President Kim Beise asked about bringing forward other potential budget adjustments. Administrator Kuhlmann indicated that the Council could discuss these now or could submit these to her by email. She stated that the Council will need to reach a consensus on budget adjustments prior to the budget being finalized.

Mayor Dowse asked when the budget unknowns will be known. Administrator Kuhlmann discussed the union contract negotiation process and the health insurance rate negotiation process. Director Hallock commented that contingencies are built into the budget for these expenditures, in the absence of definitive information. He noted that the general fund contingency can be used as a cushion.

Council Member Rauterkus referenced past discussion of early retirement options and asked whether this is currently being considered. Administrator Kuhlmann indicated that this has not been considered. Council Member Becker commented that this may not result in short-term cost savings.

Council Member Rauterkus commented that the nuclear generating plant valuation may continue to go down. Director Hallock stated that it is important to recognize that the levy will establish a new revenue base. He discussed the unique situation that resulted from increases in residential property valuation, combined with a decrease in the public utility valuation. He stated that it is reasonable to expect that Xcel Energy will continue to make investments in the Prairie Island facility and that the rate of growth in the utility property will exceed the rate of growth in residential properties, which will provide more options in the future.

Council Member Rauterkus asked whether the long-term financial plan has been updated. Director Hallock reported that updated information will be shared with the Council.

3. Discussion and Direction

Council Member Dean Hove indicated that he would like to add some capital projects to the list of potential budget reductions, or at least delay these expenditures. He indicated that he will forward this information to Administrator Kuhlmann via email.

Council Member Becker commented that there is little difference between Alternate #4 and Alternates #5, #6, #7, #8, and #9. Council Member Hove commented that Alternate #4 would allow some budget leeway to cover unexpected expenses, such as fuel charges.

Council Member Evan Brown commented that even Alternates #10 and #11 do not reflect a huge increase in terms of property taxes but would have a significant impact in terms of the budget.

Council Member Ralph Rauterkus referenced a past fuel surcharge policy. Administrator Kuhlmann indicated that the policy is still in place but that the City is currently not collecting a surcharge. Public Works Director Moskwa provided additional information, noting that this policy pertains only to the refuse and recycling enterprise funds.

Council Member Becker asked whether the County has made any decisions. Director Hallock reviewed the process followed by the City, the County, and the School District. He stated his understanding that the County will be proposing a 3 percent increase.

Council Member Becker spoke in support of Alternate #4, noting that it sounds like the \$250,000 budget gap can be bridged. Council Member Hove expressed agreement with this approach, adding that the final levy could be decreased.

Administrator Kuhlmann stated that, if there were no further questions, the workshop could be adjourned and the special meeting convened as scheduled at 6:30 p.m. She reviewed the process of setting the preliminary levy for the City, the HRA, and the Port Authority.

Council Member Rauterkus asked whether the proposed resolutions have been written to reflect Alternate #4. Administrator Kuhlmann indicated that the proposed resolutions were drafted in accordance with Alternate #4.

4. Adjournment

The workshop adjourned at 6:26 p.m.

Kim P. Beise, Council President

ATTEST:

Teri L. Swanson, City Clerk