

Study Meeting
Monday, May 11, 2015
Bloomington Civic Plaza
1800 West Old Shakopee Road
Bloomington, Minnesota 55431-3027

- 1 **Call to Order - 6:00 PM** Mayor Winstead called the study meeting to order at 6:00 p.m.
- Present: Councilmembers C. Abrams, J. Baloga, T. Busse, A. Carlson, D. Lowman, and J. Oleson.

2 **INTRODUCTORY** None.

3 **CONSENT BUSINESS** None.

4 **PUBLIC COMMENT PERIOD** None.

5 **HEARINGS/PUBLIC INPUT**

6 **ORGANIZATIONAL BUSINESS**

- 6.1 **Utility Capacity Funding Study - Update** Requested Action: Discuss updates to funding options for development related sanitary sewer upgrades and next steps.

City Engineer Shelly Pederson and Civil Engineer/Development Coordinator Jen Desrude presented an update on the Utility Capacity Funding Study. They said a total of \$29.8 million in sanitary sewer infrastructure improvements are needed through 2030 using construction year estimates. They presented funding options that could include 100% Fee (paid by developers), 100% District (paid by District funding, i.e. South Loop Development Funds), and 100% Utility (paid by increasing utility rates). The current method of funding is a combination of 50% Fee/District. They broke down the \$29.8 million in needed sanitary sewer infrastructure and said the following three development districts could participate in the funding: South Loop, Penn & American, and Normandale Lake. They presented a development fees case study. Also presented was a rate increase study on a single-family monthly bill. Staff plans to meet with stakeholders, associations, and property owners to get their feedback on Sewer Availability Charges (SAC) and developers' fees. Staff will gather feedback and bring back a draft policy for Council to review by summer's end.

Winstead, looking for a rationale way to select a funding option, questioned how the initial sewer system was paid for. Desrude replied it was paid for with special assessments by the developers.

Public Works Director Karl Keel said if the upgrade were to be paid for as the original system was, it would be paid 100% by developer fees. The question is can the development reasonably handle \$3,000 per SAC unit. He said an argument could be made by the current developers that part of the capacity they've paid for has been eaten up by other development that occurred in the past.

Winstead said the system was originally put in by the initial developer of the area. Since then other development has occurred and used up the capacity. Now more new development is coming in and the system needs upgrading. Keel stated the City is currently developing at a higher density rate than anyone anticipated; more than the system was originally designed for. He said the burden is not entirely on the developer.

Winstead said middle development took it to capacity. Keel added the City, however, has and is allowing denser development to occur.

Abrams asked how other communities are handling this obligation to the soon to be user vs. the homeowners and utility bills across the city. Keel explained Bloomington is unique, as the City has modeled the entire system. It's able to put in the anticipated development with a forecast tracker and estimate what the future sewer flows will be. He said most communities aren't able to do that. If they haven't planned for it and a large development comes in, the last developer in the door gets saddled with it or another way to finance it is determined.

Pederson said Springsted, Inc. conducted a study for the City and they looked at other cities. That resulted in a combination of things; no consistencies. The City took the study information along with Springsted's recommendation and created its own plan.

Winstead said he's heard from developers that have gotten whacked that way with development fees in other cities who have said it's unreasonable to do business in those cities because of it.

Baloga questioned why Bloomington isn't a fully independent system. He mentioned the Pentagon Park project in Edina, which he said is partially driving the work in Normandale Lakes and asked how influences in other communities get factored into Bloomington's projects. Pederson said the Edina project is an MCES project, which includes the work they're doing in Bloomington. She said they did a project down 84th Street in 1984, which was to help Bloomington with the flowage that was coming in from the north.

Baloga said the City plans for what Met Council does as a result of other communities' development that impacts Bloomington. Keel and Pederson concurred. Baloga said Bloomington already has a steep curve of 7% on residential sewer and asked if the City has seen projections from Met Council on how Bloomington rates will be impacted on the pass-through to its customers due to current sewer demands. Keel said staff has asked for their projections and they've provided their estimated increases for the next decade, which have been modeled in Bloomington's rates.

City Manager Jamie Verbrugge said the City will try and get feedback on the threshold or tolerance for increases by the utility rate payers. He said as Bloomington tends to be in the lower tier of peer communities with regard to utility rates, it needs to be put in the context of the larger picture when relaying this information to the residents. While talking about the forecasts for Bloomington, it can be mentioned how the City models where other cities don't.

Busse, in looking at the 50/50 option of Districts and the Utility vs. 100% Utility, asked why using the Districts is a unique case. Keel explained due to cash flow, the City is anticipating the Utility will have to cover the costs of many improvements before the money can be collected from the developers. As a result, the Utility will have to raise rates enough to cover the costs until it's paid back.

Pederson commented there are some expensive improvements that will be needed between 2016-2019.

Planning Manager Glen Markegard said the Forecast Tracker was built around Met Council data. For 2010-2020, staff put a lot in 2019, 2025, and 2035. He said there were spikes in 2025 but they've been smoothed out.

Oleson said there is a need to increase capacity and asked what percentage of Bloomington's mileage in sewer lines is considered a mature asset and how does that factor in. He asked if this summer's proposed work at Oxboro is an MCES project. Pederson replied it is. Pederson said MCES is working on its trunk line in east Bloomington.

Oleson asked what factors go into the increases modeled by the City and if the planned work by the Met Council is part of it. Pederson said staff's numbers for Bloomington's utilities do not include a cost for MCES. They'll be paying for their own improvements. She said the 7% increase is to maintain the City's Asset Management Plan. It's to maintain Bloomington's pipes in its local streets. It doesn't involve any MCES costs.

Oleson said 7% is higher than the cost of living.

Winstead said the Council will have to come to some understanding on how to divide up the expense. If its 100% fee, the new development will be paying for everything going in to increase capacity. If Council chooses the Utility, the City is giving a hidden subsidy to new development going in and doing it. He said there's a balance point. It doesn't fall exactly at 50/50. He said choosing 100% fee might be putting too much on the development or the developer and choosing 100% Utility means the City is subsidizing that development. He asked staff to keep digging and said he doesn't know where it will end up. He'd like to strike a balance that includes a fee for the developer. Staff to provide comparable cities information in a graph form.

Carlson asked staff to define the \$3,000 developer fee. Desrude explained it would take \$3,000 SAC fees paid by developers to pay for the entire \$29.8 million in projects.

Winstead said the Met Council has to collect the SAC for new and expanding development but hasn't necessarily been spending it on capital improvements to maintain or build out the system. Rather the fee has been used for operating costs. He said there is a need to fund sewer operations both locally and regionally.

Carlson said Bloomington residents are paying their fair share for what is there now and what will be there in the future. This data allows for a strategic conversation with the rate payers.

Winstead said the City would model it after Met Council's calculation of a SAC unit, which looks at use. He said restaurants have a high number of SAC fees vs. a smaller warehouse, as it depends on the use. He said a small restaurant could have a large number of SAC units whereas a larger warehouse in size would be much less. It's developed specific to what the business is and its use.

Busse asked for clarification that a developer's fee would be for any development across the city; not necessarily for development in an area that is over sewer capacity. He said a restaurant at France & Old Shakopee Road would pay a fee just as a restaurant in South Loop would that is causing over capacity of the system. Keel confirmed that is the way the City has modeled it. He asked if any consideration has been given to localizing the fees. Keel replied staff hasn't discussed that and said there might be some difficulties in doing so.

Winstead suggested a three-way model (District/Developer/Utility). If the development isn't in a district, it's a combination of Developer and Utility.

Abrams said there's a strategic value to this, as it would be very hard for a restaurant or coffee shop to pay these fees in strip malls where everyone would like to see them located. She said shifting the fee over to the District/Developer and the Utility provides localization. Keel said charging the full development fee would not likely jeopardize the development from happening.

Busse said it could be expensive for a dog groomer, for example, with five stations to get in the ground and get going. Pederson said staff will look at the three-way model.

Baloga said going against the area would be viable within in the South Loop District due to the South Loop Development Fund but said the other two districts don't contribute much in terms of what's available to the cost or the need. Pederson said the Normandale Lake District can fund its own sanitary sewer improvements but the Penn American District doesn't have a funding source at this time.

Oleson asked about the South Loop Development Fund and the Abatement District. Pederson stated the South Loop Development Fund is the former Food & Lodging Fund, which has been in that District for a long time. She said the Tax Abatement District was City initiated due to the need to pay for the roadwork, sewer work, etc. that was going to be needed in the South Loop district.

Winstead said Liquor & Lodging gets revenue from all across the city but the funds can only be used in the South Loop District.

Pederson said staff will be discussing with Finance staff the various funding options for the Penn American District and will bring back that information when staff returns to Council with a draft policy.

6.2 Minnesota Valley Master Plan - Draft Review

Requested Action: No formal action is required. Provide input on the review draft of the Minnesota Valley Master Plan, particularly regarding implementation priorities and funding.

Parks & Recreation Manager Randy Quale and Senior Planner Julie Farnham jointly presented an update on the Minnesota River Valley Master Plan and distributed to Council copies of their slide presentation. Quale stated this is the first draft document of the MN River Valley Master Plan for review and input. A progress update on the Plan was shown using a map of the Minnesota River Valley upon which the blue hash marks represented the MN River Valley. Most of the property is owned by the U.S. Fish & Wildlife (USFWL). Quale said the Valley tours staff provided were well received. The advisory commission's input into the Plan was reviewed. The Parks, Arts & Recreation Commission (PARC) and the Planning Commission (PC) agreed with the Plan's recommendations and priorities.

Quale emphasized dedicating adequate resources to ensure the MN River Valley is well maintained, welcoming, safe, and promoted. He mentioned possibly seeking regional park reserve status for the lands in the river valley, which would occur through the Metropolitan Council Regional Park System. The lands in the river valley meet the criteria for a park reserve, which would provide additional protections for the land as well as additional funding sources for the development, operations, and maintenance of the river valley.

Baloga asked Quale to define regional park reserve designation. Quale replied the City would still maintain operations, maintenance, and ownership of the property; similar to the City's property in the park reserve for Bush Lake. It adds an additional planning process but it's still the City's responsibility to operate and maintain it.

Baloga asked if the City changed an element in the Plan, would it remain under the City's control and Quale replied it would. He said typically a Master Plan is developed, which is approved by the Met Council. He said the City can always amend that plan.

Farnham said Met Council has criteria for a regional park reserve designation. A regional park reserve has to be constructed and maintained as 80% natural and 20% developed. She reported the City is below the 20% developed and said if that ceiling is reached, no more development could occur.

Quale stated staff needs more detailed information on some aspects of the Plan. He requested Council's feedback on where staff should concentrate it's time and reminded them there is limited funding. He said the park asset inventory is underway but is probably 12-18 months out. Once that is complete, staff can start to establish replacement and maintenance costs. He reported the Old Cedar Avenue Bridge is moving ahead but the MN Valley State Trail is moving at a slower pace than was anticipated by staff. He said some carryover dollars from last year's budget will be utilized to help fund the park asset inventory. He said it's hard to plan trails until the State has a firm idea of what the trails in the Valley will look like. As part of its Master Sign Plan, staff would like to see more welcoming signs at the trail entrances, i.e. at Harrison Park.

Farnham said there is a lot of overlap between the different projects adding the sign plan and the Resource Protection Plan might require outside help.

Quale talked about updating the Memorandum of Understanding (MOU) that outlines the rules in the MN River Valley. He said there should be one set of rules to serve everyone in the river valley. He said the Hiking and Biking Guide is a very useful and informative document. Staff is looking forward to getting the revised document ready for distribution. Regarding site specific improvements, he said the major trail heads are all owned and operated by the U.S. Fish & Wildlife Service. He said there will be a significant number of access points and said the east side is well served. More discussion will take place regarding the maintenance sites.

The next part of the presentation was about costs – the capital improvement costs to acquire land or easements. Quale said it's a case of, "wouldn't it be nice." Nothing in the immediate future -- no major facilities are planned. They will be looking to see how access will be provided to the Old Cedar Avenue Trail. He said the City is not going to be building significant facilities as part of this plan. It's more about protecting and improving what the City already has. Anything specific to an improvement in the MN River Valley will be incorporated into the 5-year Community Investment Plan (CIP).

The CIP is approved by the PARC, PC and the City Council. He said staff would like to explore further partnerships with USFWL to provide some satellite programming at City facilities along the river valley.

With regard to funding, Quale said staff will continue to explore the existing sources such as the General Fund, Storm Utility Fund, Strategic Priorities Fund, Park dedication funds, grants, and partnerships. He said potentially new sources of funding could come from the Citizens Commission on Minnesota Resources and the Parks and Trails Legacy Fund should staff pursue a designation of the lands into the regional park system. Staff will bring back options for Council consideration to figure out how the tasks discussed should be funded.

Winstead asked if getting money from the Minnesota State Lottery would be possible. Quale said some "lottery in lieu of funding" would be a possibility for operations and maintenance if these lands were part of the Metropolitan Regional Park System. He reported the City currently receives approximately \$60,000 annually for the City's existing park reserve.

Winstead said some of the lottery funds are designated for natural resources and asked if any of that money can be applied to this. Quale said it could if this was part of the Metropolitan Regional Park System. He said an independent, City-owned park would not qualify for those funds.

Quale presented some key questions for Council feedback: Does the Council agree with the top priorities in the plan? He referred to a handout of Table 6.1, which provided information on each of the recommended implementations. As this is the first draft, additional stakeholder meetings will be held, an open house for the public is scheduled for June 17, and information will be put on City's website. Staff will bring back another draft through the PC, PARC, and City Council.

With regard to the table, Winstead said more information or insight would be helpful in the column that indicates "yes" more funding is required.

Lowman asked why natural and cultural are combined in the Resource Protection Plan. He encouraged staff to look for other creative ways -- interpretive ways, cell phones, to expand environmental and cultural education under #12.

Baloga said if the \$1.2 million of state funding dedicated to the Minnesota State Trail in this area is just for the planning, asked if funding has already been approved for the construction. Quale replied he spoke with DNR staff regarding the 2013 preliminary cost estimate of \$2.5 million. They said it includes construction and planning. He said the DNR plans to do some in-house design work. He thinks it's going to cost more than \$2.5 million but not as high as the City's original cost estimate. The DNR plans to refine their cost estimates this fall so the costs could go up some but staff doesn't know how much above their 2013 estimate. He said an estimated cost of \$680,000 per mile was erroneously used by staff which pertains more to an urban streetscape dealing with right-of-way, retaining walls, lighting, etc. He said the DNR is estimating \$180,000 per mile for a trail located within a park. Winstead asked staff to hone in on that number.

Baloga asked what the State is going to do. If the trail isn't going to materialize, it sets a different case on the table. If it's going to come to fruition, he said deferring it for a bit makes sense. Quale said staff working on the project believes the trail will get installed.

Winstead said it's a practical matter of money. Staff believes it will cost more than \$2.5 million. While the legislator working on this said if the DNR's estimate is low, they'll see to it more comes in order to get it done. Winstead said they won't be able to bridge a gap between \$2.5 - \$11 million. Farnham said waiting for the State Trail is prudent; it's not critical. What might come out of this Master Trail Plan is not a significant amount of new trails. The primary new trails are the connecting trails to the State Trail and the improvements to trail heads.

Baloga said if there is no State trail, the number and location of the trail heads would change. Farnham said the trail heads will be where they are now but the City would be looking to improve them.

Baloga asked about the parking. He said off-road riders come from all over so the City can't ignore the parking at those trail heads. Farnham explained this plan is really more of a framework plan. She said after this framework plan gets completed and as opportunities come up, staff will look for those site specific areas for improvements.

Quale said this is a plan for a plan. Assuming the DNR can build the state trail, Bloomington needs to know about the usage and until that actually occurs, it's premature to require the City add so many parking spaces.

Busse agreed with the top priorities. He said with limited funding, hearing the Park Asset Inventory is 1½ years out from being completed is a long time. He said it should be a top priority and suggested the City prioritize the top six items and determine what needs to be done to move onto the next.

Abrams concurred with Busse.

Oleson also agreed with Busse. He referenced the engaged interest groups on page 58 of the agenda. He said staff will find out what the demand is over time. He said he walked a portion of the valley with someone who lives in his district and who was extremely impressed with Bloomington. He said Great River Greening has had some conversation with the City and they're well-funded. They have the people and resources to do things such as erosion control and replanting species that do well in those kinds of soils. He said it would be nice to preserve some of the natural resources that were there when they started farming the area. Quale said Recreation Supervisor Mark Morrison is currently in dialog with Great River Greening regarding a river valley project for which they've received some State dollars. He estimated it could be a \$100,000 project of which the State and Great River Greening would provide funding 3 to 1 (\$25,000 City investment and \$75,000 from other funds). He said that's what's needed to maintain the natural environment in the river valley.

Winstead referenced the Existing Activities and Facilities and said he doesn't think the trail users represent a broad range of abilities. He said that needs to be clarified. One has to be able bodied to access the trails and access points in the river valley. He said it's a key point as the Council talks about whether it's the desire or the ultimate outcome of paved trail.

Farnham said finishing some of those ongoing items is priority #1 after which the City can talk about the other priorities. It makes sense to wrap this up as a framework plan and then move forward with the priorities. She said staff tried to narrow down the list of improvements into bigger chunks. She asked Council for their thoughts on what might be their highest priority. She said staff could provide a more complete cost analysis to help the Council prioritize but it appears everyone is in general agreement with what has been presented.

Baloga said the focus needs to be on the key priorities of the Park Asset Inventory, the Old Cedar Avenue Bridge, and the State Trail.

Abrams said these are obligations in which the City is involved so it makes sense to track it. She said this, as an entire enterprise, is clearer if it's set next to Golf and the aquatic centers and other various amenities, minus the Asset Inventory. She said the Council doesn't have a sense of what are the City's other pressing needs.

Winstead said there's a group out there that wants bike riders to ride on the paved trail in the Three Rivers Park District while leaving the River Valley in a natural state for other types of cyclists, which might be a good argument. He said that's what Council is looking at. Farnham said this is something that has been on the minds of the Council members for a long time and the City hasn't taken a comprehensive look at the River Valley. She said there is no earmarked budget to do anything with this. Part of the outcome of this work is to define what kind of priority is the River Valley and doing a portion of the improvements to the River Valley. It will be a matter of shifting money or finding new money.

Oleson commented Council has talked about going to a 4% levy increase to allow for Strategic Planning and asked if the City is getting some benefit from that now.

Winstead said Strategic Priorities dollars won't go very far with what's been discussed.

6.3 2016 Budget Framework

Requested Action: No formal action is required.

Verbrugge introduced the budget item by stating this is his first budget process as Bloomington City Manager and the Council's first budget conversation of the year. There are a lot of competing interests and priorities that will need to be navigated over the years. He said it's a \$100 million plus budget and four Council members have been through one budget cycle. This is a two-year budget (2015 and 2016). The assumptions for the second year are solid projections of anticipated expenditures and a realistic expectation of revenues. When the 2016 tax levy was conceptually approved, it was at 6.5% and 4% for 2015. He said the budget discussion will be about what next year's needs are -- where does the Council want to be in terms of an impact in 2016. He explained historically the Council would be asked to vote on its priorities for City services and then the budget would get built in tiers based on those prioritizations. He said it's important the Council has the same foundation and understanding with regard to the expenditures and the revenues before the prioritization is done.

Chief Financial Officer Lori Economy-Scholler and Budget Manager Cindy Rollins presented the Conceptual 2016 Budget Framework. They presented the following slides:

- Citywide 2015 Revenues Budget: (circle graph) Only item not included are the CIP or sales taxes that go to the South Loop Development Fund. Total revenues budgeted equal \$114 million. City expenditures are greater than the revenues at \$116,798,680.
- 2015 Tax Levy Categories: 4% levy increase over 2014 at \$49,971,775.
- Tax Categories
- Debt Service Fund
- Entire City, HRA and Port Outstanding and Projected Debt

- Tax Supported Debt: Does not include special assessments. 2020 is the last levy for the existing pieces of the Art Center and the middle section of the building for the CIP.
- Debt Service Funding Sources: The City's debt service requirements for taxes each year. Each department pays for the blue bar (Facilities Fund – CIP Bonds). The purple bar (amount paid by Fund 440) are the PIR bonds issued for the Pavement Management Program (PMP). Staff is spending down the \$7 million of interest to offset the levy for debt. The green bar is the actual amount the City is levying for taxes.

Baloga asked why the Debt Service doubled between 2014 and 2015. Economy-Scholler replied it is just how it was planned to be spent. It utilized more of the Fund 440 money for 2015 to do more in Strategic Priorities, PMP, or in the General Fund. It's how the \$50 million levy was spread out.

Verbrugge explained the accrued interest from Fund 440 is being used as a debt mitigation strategy to try and buy down the tax supported amount for the debt service. He encouraged the Council to ask questions over and over again to be sure they understand the process.

Economy-Scholler said the orange line is the PMP portion, which is where most of the City's debt is going. It's the Debt Service payment.

Winstead said the City doesn't want to borrow for operations except for the Fire Pension bonds from a couple of years ago.

Carlson asked for more information on the 440 Fund. Economy-Scholler said Fund 440 was started from positive performance before 1984. Cities were allowed to issue debt to earn interest as a revenue enhancement. She explained when the City issues debt, the money goes into the 440 Fund and the City pays the capital projects funds road construction. It's like a pass through. She said the City is weaning it away.

Carlson asked why the City is expiring Fund 440. Economy-Scholler said the City had to utilize another source of funding during the downturn rather than raise taxes.

- 2015 Anticipated Debt Issuance: Bond issuance planned for Lennar/Bloomington Central Station (BCS), PMP Reconstruction, Local Wayfinding, and possibly the Housing Improvement Areas (HIA).

Regarding HIA's, Economy-Scholler said there are two potential projects that require a buy in of 60% of the association members. The City serves as a bank. She said staff would like to combine the HIA bond sale with the Fall 2015 bond sale. The City wants to keep the bond issuance below \$10 million.

Winstead said if the City issues \$1.5 million to provide a loan to the townhome associations and only \$500,000 gets loaned out, the City still needs to secure \$1.5 million in its pool. He said the City is obliged to repay it. He said if the City sends out \$500,000 to townhome association A, the City is still sitting on another \$1 million, which will need to be retired. He asked if the City starts eating the principle. Verbrugge stated the City is not going to issue beyond the HIA demand. Staff will only issue the amount applied for, i.e. \$500,000 if that's the case.

- Tax Abatement District: (Normandale Lake District): There is a change for 2016. Covington is now 100% on there and that impacted the levy by about \$125,000 by the growth of that base. There was a 51% change in 2016 in what the City has levied separately. One of the constraints is the increase in this piece.

Carlson asked about the calculation to determine what each is paying for. Economy-Scholler said it's a small time tax increment. The City doesn't capture the County and the School District. It's only taking the growth above the base and capturing the City portion of it. It's out there for 20 years but with constraints.

Winstead said for clarification the City's tax portion is diverted with some constraints. He said this was the only tool available back in the 2000's when the City was trying to figure out how to fund some of the improvements in this area. Economy-Scholler said the City is slowly accumulating the funding sources so the improvements are a couple of years out.

- Recreational Facilities: Currently includes the Art Center and the Family Aquatic Center. Potential facilities include golf courses and park development monies that would go into this category.
- Fire Pension: City needs to fund the obligation.
- History of City Contribution for Fire Pension: In the early years, it was funded using a direct tax levy. Blue line on the graph indicates State aid, which the City passes through. The green line is tax levy, yellow is the positive performance allocated by Council, orange is the decision to issue debt a few years ago to cover the commitment, and the purple line represents Strategic Priorities, which was funded in 2015 and modeled in 2016.

Verbrugge said staff is trying to reduce the volatility in the Positive Performance and Strategic Priorities monies to get more consistency in the levy over time.

- Currently modeled: Fire Pension obligation would be funded through Strategic Priorities. The 2016 levy includes \$500,000 for Fire Pension to start building a reserve for future obligations.

Winstead commented if the day comes when there is more in the reserve than is needed, the Council will have to look at reducing the levy because the State will notice if the City has too much reserve.

Economy-Scholler commented the budget for fire equipment was trimmed in the first few years but has since been built up because it's been needed.

Carlson asked for the projected 2016 obligation. Economy-Scholler said it is just under \$1.4 million.

Baloga stated \$500,000 represents a 1% levy increase from 2015 to 2016.

Regarding the Fire Pension, Verbrugge said the City needs to start talking about adding more firefighters. It's currently a concern. He said it's about \$25,000/year per position in the Fire Pension.

Fire Chief Ulie Seal said the Fire Department stands to lose about 20 firefighters in the next two years.

- PMP Overlay and PMP Updated Plan of Action: Goal for 2015 was 8 miles of overlay and 9 miles in 2016-2019 but staff hasn't been able to do as many miles as desired. More details in June.

Carlson said the City bonds for reconstruction but overlays are pay as you go. Economy-Scholler said the cost per mile is going up so the City can't do as many miles for the same amount it used to. More information about this will be provided next month.

- Strategic Priorities Revenues: Expected in 2015. Modeled to levy \$732,000 in Strategic Priorities in 2017.

Oleson asked what the Minnesota House is saying about Local Government Aid (LGA). Verbrugge said LGA is probably safe.

Carlson said the City is not using LGA for operations so asked if it could be used for Strategic Priorities.

Economy-Scholler said there was \$780,000 of positive performance at the end of 2014, which staff desires to move from the General Fund to Strategic Priorities. Typically it's been around \$200,000.

- Strategic Priorities Expenditures: Don't know what will be needed for Golf. The \$1 million Council dedicated from Strategic Priorities to the Old Cedar Avenue Bridge will be transferred to another fund.

Oleson asked if the \$500,000 for the deferred Home Improvement Loans in 2017-18 was set up to be expanded. Economy-Scholler said years ago, the Council wanted to set aside \$500,000 per year for five years and to date, that program has received \$300,000 of the \$2.5 million. She said \$1.3 million might be given to enhance that program.

Winstead said if only \$250,000 needs to be added to the fund to meet the demand, the Council could levy less. Economy-Scholler said staff is trying to keep the fund balance at \$2 million for emergencies. She said Strategic Priorities tends to be used for new initiatives or one-time projects. She said if Council wants it to be regularly used for something, it should be built into the regular budget.

- General Fund: 85% of the levy goes into the General Fund.

Verbrugge explained in the midst of the downturn, cities were cannibalizing the balances in some of the other funds to mitigate impacts to the general tax levy. Economy-Scholler said Bloomington utilized and froze its Internal Service Fund charges as a downturn strategy.

Baloga inquired as to how budget transfers operate and affect the levy. Economy-Scholler said the City programs in a transfer of approximately \$350,000 from the General Fund into Solid Waste for trees, etc.

Baloga said there was unspent money in the 2014 Budget that was transferred to the 2015 Budget in the form of carryovers, which takes a portion of the budget but asked if there was an associated fund that travels along with it. Economy-Scholler said the \$1 million of unspent money was moved from 2014 to 2015 so Finance watches to make sure the departments don't overspend that budget.

Verbrugge explained the estimated unspent is an accounting for vacancies.

Baloga questioned why the City doesn't just budget for the anticipated costs for all positions and not factor in vacancies. Verbrugge said if the City stops accounting for vacancies, it's an increase in cost to expenditures.

Baloga said the unspent for unfilled positions doesn't go to positive performance but believes it has to. Rollins said at the beginning of the year in the budget, it's estimated unspent. At the end of the year, when there is actually some positive performance, it's used as positive performance. Baloga said what goes into positive performance is the difference between what staff forecasted the unfilled positions to be and what they actually were in terms of salaries and benefits.

- Lodging and Permit Revenue: Property taxes, lodging and hotel taxes, and permits make up 83% of all revenue in the General Fund Budget. The estimated lodging revenue for 2015 is over \$7 million. The concern is will the demand be there for the 1,000 rooms that will come on line in 2016.

Verbrugge said the City is not projecting a 74% occupancy rate on 1,000 new rooms but rather is planning for a modest increase in the number of people staying in Bloomington.

Oleson asked if big events in the Twin Cities such as the Super Bowl are factored into the modeling. Economy-Scholler said yes they do if they're aware of large upcoming events. They track them as they come in.

Verbrugge said the City needs to be cautious of the volatility of a certain large attraction in town. He said staff hasn't seen how much that impacts the lodging side of things.

- 2016 Conceptual Levy: Total tax levy: 6.7% tax levy = \$53,316,572.
- Table: Dissects each of those categories. It was a 3.02% increase in the levy for 2014, 4% in 2015, and 6.69% for 2016 conceptual. The big change was the tax abatement for the Covington change.

Economy-Scholler said when the Mall of America (MOA) Tax Increment Financing (TIF) comes off, the City doesn't get any more money; it gets more tax space. The MOA continues to pay their taxes but it's how it gets distributed. Currently, the MOA TIF goes to the Port Authority and sits there to be used for capital improvements in South Loop specifically for the MOA contract. In 2017, Bloomington will have a bigger tax base over which to spread its tax levy.

Winstead said when the MOA taxes comes out of the TIF, the County and the School District will get their share that's been captured and diverted into the TIF District. He said it's less than \$.50 on the dollar for the TIF District. The impact will be on the tax base and how the tax levy is redistributed.

- Monthly Cost vs. CPI Increase: 4%, 6%, 8% and 10% levy options.

Carlson asked why the City tries to match the CPI. Verbrugge said the new reality started in 2010. He said if the City had followed the rate of the CPI for its levy increase percentage, the monthly cost for City services would be \$77.57 in 2017. Carlson said using the CPI as an index is logical. Rollins said the City looked at a municipal index but said it's very complicated.

- Table: Levy Rates with Monthly Service Cost, Dollar Change & Percentage Change

Verbrugge said there are ways to talk about the level of investment the Council is going to make in the coming year. The impact of the MOA coming on is someone's overall share of that tax pie is going to go down.

Winstead said making it confusing for the residents will make them mad and this doesn't describe the impact to the commercial real estate in the community.

Baloga requested a global view of the percent that is paid by commercial/ industrial and residential. Staff to provide. Baloga commented his personal assessed value went up by 19.8%. Verbrugge said those markets are not moving in concert.

Lowman desired to see the tax impact on the properties that had an increase in value. He asked Verbrugge if they used the CPI in the cities he's worked in. Verbrugge said they didn't use the CPI as much as they used the levy impact. He said the median value is one home profile staff can pull out that is an easily understood and accepted analysis of where taxes are. He said it's easier to see how individualized factors will affect a \$300,000 home from year to year. Lowman asked if the lower quartile of home values is losing some of its value to the upper value homes.

Winstead said he'd like to see the quartiles of home values.

Baloga said because of compounding, the higher the value the more residents are going to be paying and the lower the value, the less they're going to be paying.

Economy-Scholler said the levy percent change is proposed at 6.7% for 2016. To get it down to 4% will require adding revenues or trimming expenditures by \$1.3 million from the currently proposed 2016 conceptual.

Baloga said the Council voted in 2014 to increase the Reserves Fund by a half percent per year and asked how it's funded. Economy-Scholler said at year's end, staff kept 35.5% in the General Fund. The remaining \$780,000 would be taken out of the General Fund and put into positive performance. The positive performance is utilized to keep cash for the fund balance in the General Fund so the City has money to work with while it's waiting for its second big paycheck of the year.

Verbrugge said Governor Pawlenty's message in 2002 with regard to the economic downturn was that local governments needed to control their costs; part of which had to do with cities carrying excessive fund balances. He said the new State Auditor, at the time, commissioned a study of fund balances and issued a finding that local government General Fund balance reserves only needed to be in a range of 35-50% to be considered financially healthy. He said the State Auditor's report was the basis of the rationale the Governor and the Legislature used to reduce Local Government Aid so local governments would utilize their fund balance to offset lost LGA. He said fund balance is essentially cash flow. The City's AAA credit rating indicates Bloomington has a healthy financial status.

- Levy Limits: City doesn't know if there will be levy limits in 2016.

Verbrugge said nobody has been talking about levy limits except for the House Property Tax Committee Chair but there are no bills to date. He believes it will emerge on the last day of the Tax Conference Committee as a way for one party to potentially appease the other party when it comes to getting a final tax bill.

- Questions

Verbrugge said this is a reality check. What does Council want staff to take a close look at or what information does Council need to start making the decisions they need to make for the 2016 levy.

Busse requested a copy of this presentation.

Winstead said levy increases could be hard to digest but the residential dollar portion will be less than the commercial. He requested staff eliminate the background on the slides with charts, as it's too confusing to read.

Lowman wanted to know what Council will do in 2016, as it sets up what is done in 2017. Economy-Scholler said the 2017 Budget plus carrying forward all of the pieces discussed tonight results in a levy of over 8%. Verbrugge said the impact will be harder to model because it will be hard for the City Assessor to say where the median home value will be, which is how the impact will be estimated.

Winstead said if Council prioritizes everything and wants to do everything, a relatively high levy increase will be proposed. He said keeping things in the priority column without funding just kicks the can down the road. Verbrugge used the PMP for example. Reducing the number of miles that will be done based on cost pushes those miles further out, which just extends the time for getting them done and adds more roads to deteriorating status.

Baloga suggested capturing all of those topics onto one sheet so the Council can memorialize it and show the cost. He said Council could talk about them as discrete independent items but not talk about them in the context of what it means to the levy and the Council's priority setting. He said now is the time to do that. Council needs to determine its priorities. Look at it globally. Decide on the priorities and stick with them. He said it's hard to get all of the projects into a priority sequence.

Verbrugge asked Council about their philosophy for adopting the preliminary budget and levy. He said it's a two-step process and reminded Council whatever they set as the preliminary levy in September is the absolute maximum levy Council can adopt in December. He said the tax hearing notices will go out with the levy increase Council approves in September. He said a higher number in September mandates more communication.

Baloga commented this is the best budget presentation he's seen since he's been on the City Council. He said for the next budget presentation to the Council, it would be helpful to show the fund balances. Economy-Scholler said the CAFR will have the balance sheets. She said she'll send the Council this presentation.

Verbrugge asked if the Council wanted to discuss the philosophy question now or do it later.

Winstead said the Council has consistently set a higher levy percentage in September and worked it to a lower percentage in December. He said when things started to crash, the reductions were too close to achieve a reduction.

6.4 Hennepin County Courts Facility Proposal

Requested Action: Provide update and seek direction from the Council.

Verbrugge said this matter was last discussed by the Council in February. He reported Hennepin County has decided they do not wish to invest in their current Southdale facility and will be splitting the three services up as a result.

Verbrugge said the County is committed to locating their license service center in the Southdale Mall to save money. He said the Southdale Library is intended to stay on the existing site as part of a redevelopment. The County will either move the court services to the downtown Government Center, which will be a much more economical solution for them, or build a new facility in Bloomington attached to west end of the Police Department wing of Civic Plaza. He said there will be a cost to the City with either of those two options. It's currently convenient for Bloomington to use the Edina court so there's not much cost to the City's prosecutors and police officers. It will cost the City \$75,000 to \$100,000 more to utilize the downtown court plus the potential overtime for police officers, extra mileage, parking, and lost productivity. Potentially it could cost Bloomington up to \$150,000 per year plus more if reduced productivity results in the need to hire another staff person. He said the County's proposal is if the courts are constructed onto Bloomington Civic Plaza, there will be cost participation. He said per Council's direction in February, staff tried to negotiate with the County stating Bloomington doesn't believe it should have to pay because courts is an obligation of the County to deliver that service. The County believes the City should participate because an asset would be added onto the City's building. He argued the City's cost participation should be equivalent to what it would cost the City to utilize the downtown facility, which is \$150,000 per year. The County said they would need to construct a parking ramp to accommodate the additional traffic on the site so Bloomington should bear 50% of the parking ramp costs and some tenant improvement costs for the increased police garage under the courts facility. He said factoring that into debt service, amortized over 20 years, comes out to about \$150,000. He said that's the most the City can expect to get out of the County from a negotiation process. He said a different argument would be that none of the cities should have to pay to keep a suburban court presence or at least one city shouldn't have to bear the cost to keep a suburban court presence for all of the other cities that aren't contributing to that cost. He said the County is going to redevelop the current service center site and get the shell of the library built as part of a new development contract. He said Edina estimates they could see an assessed value of \$30-\$40 million for whatever redevelops there. He said one city is going to get a tax windfall and the other is either going to be paying to drive downtown or to keep a suburban court location. He asked the Council for direction on how the City should negotiate with the County. The County will accept 50% of the ramp and some of the T/I to get to approximately \$150,000 of amortized debt service. Bloomington would own the facility and the County would lease it.

Winstead said he doesn't like the idea of the County taking an incremental cost for Bloomington if the court goes downtown to stating it's what the City should contribute. He said if the County wants the court to be in Bloomington, they should pay for it.

Verbrugge said there would be a tremendous benefit to Bloomington by having the court facility located here.

Winstead said he'd like to be the benefactor of the savings Bloomington would realize by not having to go downtown as opposed to investing it into a County-occupied facility here.

Baloga said with either scenario, the City will still have to bear the incremental cost. He said the City will be diluting its image on this site if it becomes a City/County facility rather than a civic plaza. He doesn't like either concept. He said he'd be open to the County exploring other locations within Bloomington. He said what the County is offering is of no interest to him.

Winstead said whether it gets located here or somewhere else, the County should pick up the entire tab.

Busse commented Bloomington Civic Plaza is not well served by transit. He said there could be longer-term tails associated with this such as the need to serve food at some point the City could get stuck with.

Carlson said this doesn't appear to be a good thing for Bloomington. He understands it would help City staff but said it doesn't have to be located at a Bloomington complex. The County should purchase a property and develop it.

Council asked why the County doesn't look in Richfield.

City Attorney Sandra Johnson said Bloomington is the biggest user of the south suburban court. She said Ridgedale did a remodel but it doesn't have enough functioning court rooms to accommodate Bloomington. It could probably accommodate St. Louis Park in addition to Eden Prairie and Minnetonka, which it currently handles. She said the City's case load is enormous, as it handles 17,000 traffic cases per year, 500-700 DWIs, and 200 domestic abuse cases. She said it would be tough to fit Bloomington in anywhere and doesn't think they could fit Bloomington in downtown. She said the County redid the Brooklyn Park facility about ten years ago but won't do it for the southern suburbs. She said the County has brought up the issue of closing the suburban courts every five years. The County talked about closing Southdale in 2008 and in 2013. In 2013 when there was talk about closing Southdale, the police chiefs and suburban prosecutors rallied to save the Southdale court. She said this came up again last year.

Verbrugge said the County hasn't asked any other city to pay for court facilities.

Johnson commented the southern suburbs are getting short changed.

Verbrugge said if the Council accepts those as being the only two options, does it want him to reject the County's proposal and put the ball back in their court. If they decide to move the courts downtown, then it becomes a political issue.

Baloga asked if anyone has talked to Commissioner Johnson about this.

Winstead said he's had ongoing discussions with Commissioner Johnson on this subject for about 1½-2 years. He said he told Johnson he'd be welcome to build it and pay for it. He said the County's rationale is wouldn't it be a wonderful thing for the City if they came to Bloomington but because it would require construction of a parking deck that would be beneficial to the City, Bloomington should share in the cost. He informed Johnson he disagreed with that argument.

Oleson said the public should know about this issue.

Chief Potts said having to go downtown will increase Bloomington's costs by \$150,000 - \$200,000 annually.

Oleson asked if there were other southern suburbs willing to lobby with Bloomington.

Verbrugge said the mayors and city managers would stand together, as there is a serious inequity by creating a windfall in one community and assessing another.

Chief Potts said the northern and western suburbs are covered fairly well but the County is saying Bloomington could go to downtown Minneapolis.

Winstead asked if there was any way for the City to capture booking fees from the Richfield and Edina Police Departments for those awaiting trial.

Potts said Bloomington could but the way Southdale and Brookdale work, the offenders don't go into a jail but into some transitional cells. At the Government Center, offenders have to go through the Hennepin County intake facility. People wait in jail for their case to come up.

Baloga asked if it was discussed that Bloomington could close its Motor Vehicle services, which is primarily a county service.

Verbrugge said it's a disparity proposal. He said the City could put out a public message that the County is going to make it more difficult for victims and victim's advocates to deliver an essential service. He said he will tell the County the Council doesn't support a proposal in which the City would have to commit to an annual debt service.

Oleson questioned what having the court located at Bloomington Civic Plaza would do to its image. Where would users of the court enter? How would it affect the Art Center? What are the perceived concerns about safety? He said with the talk of a new community center, asked about making a deal with the County that if the City builds a new community center, Creekside could be demolished and rebuilt as a court facility. Verbrugge said there is some merit in having that conversation but said this issue is time sensitive.

(There was Council concurrence to direct the City Manager to tell the County the courts could be located adjacent to Civic Plaza if they're willing to pick up all of the costs associated with that option.)

Additional Comment

Baloga reported he had two calls from residents informing him that CenturyLink was going door to door trying to sign up customers for cable service in Bloomington when they didn't realize CenturyLink was a cable provider in Bloomington.

Oleson reported the person that came to his house was talking about bundling phone, internet and Direct TV.

Winstead said what CenturyLink is proposing needs to be clarified. Verbrugge said staff will check into it.

7 ADJOURN

Mayor Winstead adjourned the study meeting at 10:03 p.m.

Barbara Clawson
Council Secretary