MINUTES

COTTAGE GROVE CITY COUNCIL — January 4, 2023

COUNCIL CHAMBER
12800 RAVINE PARKWAY SOUTH

REGULAR MEETING - 7:00 P.M
COUNCIL CHAMBER

Pursuant to Minn. Stat. 13D.02, Subd. 1, Council Member Thiede will be attending remotely at the following location:
7393 Hidden Valley Trail S., Cottage Grove, MN, 55016.

1. CALL TO ORDER

The City Council of the City of Cottage Grove, Washington County, Minnesota, held a regular meeting on January 4, 2023, at Cottage Grove City Hall, 12800 Ravine Parkway. Mayor Bailey called the meeting to order at 7:00 p.m.

2. PLEDGE OF ALLEGIANCE

The audience, staff, and City Council Members stood and recited the Pledge of Allegiance.

3. ROLL CALL

City Clerk Tammy Anderson called the roll: Mayor Bailey - Here; Council Member Dennis - Here; Council Member Khambata - Here; Council Member Olsen - Here; Council Member Thiede - Here.

Also present: Jennifer Levitt, City Administrator; Korine Land, City Attorney-LeVander, Gillen & Miller, PA; Tammy Anderson, City Clerk; Karla Bigham, Washington County Commissioner; Ryan Burfeind, Public Works Director; Gretchen Larson, Director of Economic Development; Zac Dockter, Parks and Rec Director; Joe Fischbach, HR Manager; Pete Koerner, Public Safety Director; Brenda Malinowski, Finance Director; Amanda Meyer, City Engineer; Mike Mrosla, Senior Planner; Emily Schmitz, Senior Planner/Interim Community Development Director; Washington County Sheriff Dan Starry.

4. OPEN FORUM

Mayor Bailey opened the Open Forum.

Karla Bigham, Cottage Grove resident and newly elected Washington County Commissioner, congratulated Council Member Dennis, Council Member Khambata, and Council Member Thiede for their reelection, and for the good they've done and will continue to do on behalf of Cottage Grove. She stated she and Mayor Bailey and City

staff already have scheduled meetings to get working on issues in Cottage Grove that are important to the residents; she's looking forward to a productive relationship. Her top priority is getting major renovations done to the Park Grove library sooner than 2027. She's also looking forward to working on issues related to housing, transit, workforce development, and anything that encompasses the role of a County Commissioner.

She personally thanked Mayor Bailey for braving the elements yesterday to administer her oath, and other City staff who were also present. Sheriff Dan Starry was reelected to a third term, and he also has a great relationship with the City.

Mayor Bailey stated we appreciate have Commissioner Bigham in that role and is looking forward to all the great things we'll be doing together, with our cohesive relationship with Washington County.

As no one else wished to address the Council, Mayor Bailey closed the Open Forum.

5. ADOPTION OF AGENDA

Council Member Olsen made a motion to adopt the agenda; second by Council Member Dennis. Clerk Anderson called the roll: Council Member Khambata-Aye; Council Member Dennis-Aye; Council Member Thiede-Aye; Council Member Olsen-Aye; Mayor Bailey-Aye. Motion carried: 5-0.

6. PRESENTATIONS

A. 1st Order of Business: Oath of Office-City Council Members Dave Thiede, Tony Khambata, and Steve Dennis

Mayor Bailey administered the Oath of Office to Council Member Dave Thiede and Council Member Tony Khambata, congratulated each of them, and everyone applauded.

Washington County Sheriff Dan Starry administered the Oath of Office to Council Member Steven J. Dennis, congratulated him, and everyone applauded.

Council Member Dennis stated it was an honor for him to have Sheriff Starry be here tonight to join us in this process. He values his connection and friendship with Sheriff Starry very much. He recognized the great work of the men and women involved with the Washington County Sheriff's Office and made a small donation to be used for the highest and best use. We're blessed to not only have the Washington County Sheriff's Office but also our own Cottage Grove Police Department. The people of our City and this area are in good hands, and he again thanked Sheriff Starry.

Mayor Bailey had those Council Members present sign their Oath of Office certificate; he advised Council Member Thiede once he was feeling better, he would need to sign his certificate. Mayor Bailey congratulated all reelected members of the Council and thanked Sheriff Starry for joining us tonight.

7. CONSENT AGENDA

A. Accept and place on file the minutes from the November 28, 2022, Planning Commission meeting.
B. Approve the December 7, 2022, City Council Regular Meeting minutes.
C. Approve Resolution 2023-006 authorizing the renewal of business licenses for 2023.
D. Approve the issuance of rental licenses to the properties listed in the attached table.
E. Nominate Emily Stephens to the South Washington Watershed District Board of Managers.
F. Adopt the 2023 Legislative Agenda.
G. Adopt Resolution 2023-002 designating depositories for 2023.
H. Adopt Resolution 2023-001 approving the final payment for the 2021 Mill & Overlay Project in the amount of $12,460.34 to OMG Midwest, Inc. DBA Minnesota Paving & Materials.
I. Approve Change Order #1 in the amount of $195,000 for the South District Trunk Storm Sewer Project.
J. Approve forgiveness of loan with Renewal by Andersen based upon the completion of the terms of the loan and authorize the payment to Renewal by Andersen of the MIF funds received by the City.
K. Adopt Resolution 2023-004 approving the feasibility report and establishing a February 1, 2023, public hearing date for the 2023 Pavement Management Project.
L. 1) Approve the Memorandum of Understanding for Parcel 6. 2) Authorize execution of the corresponding easement. 3) Authorize payment of the settlement amount.
M. Adopt Resolution 2023-003 awarding the signal cabinets and video detection system for the East Point Douglas Road and Jamaica Avenue Project to Traffic Control Corporation in the amount of $77,583.00.
N. Approve the Letter of Agreement between the State of Minnesota Department of Public Safety Division of Homeland Security and Emergency Management and Cottage Grove EMS Ambulance Service.
O. 1) Authorize the acceptance of the FY2022 UASI Competitive Grant in the amount of $53,736.00. 2) Adopt Resolution 2023-005 Authorizing Execution of Sub-Grant Agreement so the City of Cottage Grove may proceed with the application process for the FY2022 UASI Competitive Grant.
P. Designate the St. Paul Pioneer Press as the City of Cottage Grove's newspaper for official publications in 2023.

Council Member Thiede wished to pull Item E, Nomination to South Washington Watershed District, for further comment and/or discussion. He stated he supported Emily Stephens' nomination, as she's been on the Planning Commission, and he'd been

one of those who interviewed her for that. She's got a great background in planning, watershed, and water issues. He appreciated everybody's approval of her appointment.

Mayor Bailey stated he also felt she'd make a great member of the South Washington Watershed District.

Motion by Council Member Olsen to approve the Consent Agenda; second by Council Member Khambata. Clerk Anderson called the roll: Council Member Khambata-Aye; Council Member Dennis-Aye; Council Member Thiede-Aye; Council Member Olsen-Aye; Mayor Bailey-Aye. Motion carried: 5-0.

8. APPROVE DISBURSEMENTS

A. Approve payments for the period of 12-16-2022 through 12-30-2022 in the amount of $2,720,296.95.

Motion by Council Member Dennis to approve disbursements; second by Council Member Olsen. Clerk Anderson called the roll: Council Member Khambata-Aye; Council Member Dennis-Aye; Council Member Thiede-Aye; Council Member Olsen-Aye; Mayor Bailey-Aye. Motion carried: 5-0.

9. PUBLIC HEARINGS - None.

10. BID AWARDS - None.

11. REGULAR AGENDA - None.

12. COUNCIL COMMENTS AND REQUESTS

Council Member Khambata stated he's overwhelmed to take the oath a second time. He thanked everyone who put their confidence in him, and he hopes to continue to do great work for the City.

Council Member Dennis stated it's an honor and privilege to sit here and do the very best we can on behalf of as many people as we possibly can, to do that every meeting, and try to make our home be a better place. He very much appreciated all of the support over this last campaign.

Council Member Dennis stated he had a constituent reach out to him today, who shared his appreciation for some medical assistance that his wife had received. This gentleman stated from the 911 call and talking to Washington County dispatchers, to the Cottage Grove police officer who showed up first, and then a medical rig, he felt everyone did a fantastic job. They really helped calm his situation and that of his wife and provided excellent service and assistance to her. He asked that I pass that on but keep their names confidential; he was very appreciative for great service throughout the entire process, from A to Z. We tend to take that for granted, but it's a reality here every day

with the excellent people that we have. He asked Public Safety Director Pete Koerner to ensure that that's conveyed to our team, as it was very much appreciated.

Council Member Thiede appreciated the support from the community in reelecting him and the opportunity to work with everyone and take care of things in the City, including all of the planning. He thanked everyone very much.

Council Member Olsen congratulated his colleagues, Council Member Thiede, Council Member Dennis, and Council Member Khambata, as well as all of his other friends who had taken their Oath of Office this week or will be soon. He was pleased to continue working hard on behalf of the residents of this community with such an amazing team: Our new County Commissioner, Karla Bigham, Mayor Bailey, and all his fellow Council Members. It will be a hard year but a fun year, and he looks forward to working together with all the various stakeholders to really move this community forward in a way to which our residents have become accustomed. If you listen closely to the Oath of Office, one phrase is like, "I will do my best according to the law, my judgment, and ability." That's a very important line because the law is what guides us. When we're dealing with challenging issues, we look to what the law tells us. All of the individuals mentioned are very clear about their role and their responsibility as it related to making sure that Cottage Grove is always on the right side of the law. That speaks to the judgment and the abilities of the individuals who take that oath; our judgment is really an offshoot of what we know to be fair, equitable, and legal. People need to understand that's a heavy burden to carry sometimes, but we do so willingly, and he wouldn't carry it with anybody else other than the colleagues sitting on this Council. He's looking forward to 2023 and beyond.

Council Member Olsen stated if people are looking for some fun, this Saturday, January 7, from 10:00 a.m. to 4:00 p.m., is the Cottage Grove Scramblers Annual Dust 'Em Off Snowmobile Show and Swap. That will be held in the field owned by the Goebel family at 70th Street and County Road 19. The Scramblers will be out with all of their sleds, some classic sleds will be there, and there will be a raffle for an opportunity to win a classic snowmobile. Our Cottage Grove Lions will also be present with some food and beverages. It's a great opportunity to get outside and enjoy the winter weather. There will be plenty of snow for the snowmobilers to really have a good time.

Mayor Bailey reminded the public that he'll have the honor of providing the State of the City Address on Wednesday, February 1, at 6:00 p.m., prior to our City Council Meeting, in the Council Chambers; it will also be televised. There will be great information, looking back, and also looking forward to some new things in the upcoming year.

Mayor Bailey stated once again our Public Works group did a fantastic job moving the recent snow. He asked Ryan Burfeind, Public Works Director, to share with the Public Works staff that there's a notable difference when driving from Cottage Grove into another city; what they accomplish in Cottage Grove is great. If the snow at the end of your driveway is deep or maybe the roads are narrowing a bit, we basically have almost

had a full season's worth of snow, and there are many months ahead of us. So, where to put the snow is getting to be a challenge; Public Works might actually be hauling snow to create more space for the future. He gave kudos to the Public Works crew for the work that they've done.

Mayor Bailey wanted the public to be aware that Council authorized staff to create a 14th plow route. Unfortunately, because of supply-chain issues, we have not been able to receive our new plow truck; therefore, we've not been able to implement the 14th plow route, which will lessen the time for our roads to get cleared. We intend to expand our plow routes, to have it take less time to get roads plowed from beginning to end, but we need the truck to do that. As soon as that truck arrives, we'll be using it, hopefully yet this winter but for sure in the next.

Mayor Bailey thanked Representative Angie Craig and Senators Amy Klobuchar and Tina Smith, as they were successful in working with us to provide $5M in Federal funds for the reconstruction of 80th Street from Ideal Avenue to Highway 61. That's the second time we've had the opportunity to work with our legislators on a national level to provide funding for projects for the citizens of Cottage Grove and the surrounding communities. We appreciate all of their effort and support of the citizens of Cottage Grove with these funding opportunities.

Mayor Bailey is happy to have all our reelected Council Members and Commissioner Bigham back on the team again.

Mayor Bailey stated tonight's workshop is open to the public and will be held in our Training Room. We'll be receiving and discussing information on two items:

1) Financial Management Plan for the City for future years.
2) Local Option Sales Tax financing and how the money would be used should the citizens of Cottage Grove approve it in the future.

We will be adjourning this meeting after the workshop in the Training Room. He wished everybody a Happy New Year; we're looking forward to an amazing year.

13. WORKSHOPS - OPEN TO PUBLIC

A. Financial Management Plan
Staff Recommendation: Receive and discuss Financial Management Plan.

Brenda Malinowski, Finance Director, stated during the Budget Workshops and the CIP discussions last year there was much discussion about the property tax levy and its impact to our taxpayers, especially with the Equipment Replacement Fund, Pavement Management Debt, and Street Debt. Street Debt is different than Pavement Management Debt as it's things like the East Point Douglas Road & Jamaica Avenue Project and the Shoppes at Cottage View; it's things that aren't in the Pavement Management plan. We've also got the Glacial Valley Park building coming and future

staffing needs related to our growth. We thought it might be a good idea to have a Long-Term Financial Management Plan prepared, so Ehlers is here tonight with that plan. They incorporated not only our operating budget for the next 10 years, but they looked at the oncoming debt. They're looking at the big picture, the long-term effects, and how to level out impacts to our property taxpayers. Stacie Kvilvang and Kyle Sawyer from Ehlers have been working with City staff on that plan and will present their draft management plan tonight. We're looking for Council feedback, what you are and are not comfortable with. Director Malinowski introduced Stacie Kvilvang, Senior Municipal Advisor, with Ehlers.

Stacie stated we took a long-range look, over 10 years, because there's a lot going on here, you're a growing community. You want to plan for a longer horizon, so it's not an annual decision you're trying to make about what you want to do and not do, what you should pay for and what it should cost everyone. There are a few key takeaways that you can focus on; Council Consensus and Next Steps will be based on Council feedback.

Items to Consider:

- General Fund Reserves are maintained at 45% of next year's expenditures; in 2024, we're increasing that to 50% by 2031, which is a good thing.
- Reviewing and updating your Fund Balance Policy.
- Need to refine how you're paying for your equipment, so we'll look at changes.
- Long-term capital needs have to be further identified, out to 10 years.
- Annual dollar levy increase for the average value home needs to be more than the 2023 increase for 2024 and similar to 2023 for 2025.
- Additional debt needs to be issued over the next 10 years to meet your capital and equipment needs.
- Additional funding sources need to be identified for: Park Capital, Park Trust Fund, and we'll also discuss the EDA Trust Fund.

Council Direction/Consensus:

1. Update Fund Balance Policy.
2. Fund Balances: Establish goals for Equipment Replacement, Pavement Management, Park Capital, Park Trust, EDA.
3. Equipment Replacement Fund balance and how its funded.
4. Identify additional funding sources for Park Capital, Park Trust, and EDA.
5. Direction from Council on the annual dollar levy increase; what's affordable for your homeowners, residents, and businesses.

Governmental Fund Types: General Fund, Special Revenue (Golf Course, Ice Arena), and Capital Projects (Municipal buildings, Park improvements, etc.). Proprietary Funds and Enterprise Funds are your money makers; Proprietary Funds are not looked at in the Long-Range Financial Management Plan. This deals with the General Fund, the tax-supported fund.

General Fund Revenues: Typically, 75% to 80% are from property taxes. We depend on local taxes to help pay for a lot of services that are provided.

General Fund Expenditures: 68% is for staff, as we're in the business of providing service; most is going to Public Safety, always the biggest chunk of the budget.

Building the Budget: Set strategic vision and strategic goals, which is the basis for every budget. The most important thing the Council does is the budget: Putting the dollars to your strategic vision and goals and build in the costs of staff and capital resources to make that happen.
Property Taxes & Levy: Property Tax Levy is the amount needed to do everything you want to do. We divide that by the Net Tax Capacity in your City. All properties within the City are multiplied by their property tax rates=the Tax Capacity of real and personal property. Net Tax Capacity is used to determine the local tax rate, less net of captured value in TIF Districts and Fiscal Disparities contribution. *2023 Levy*: Net Tax Levy after Fiscal Disparities is just about $18M, your Net Tax Capacity is about $53M, your Local Tax Rate (LTR) is 33.74%. Home #1's estimated market value: $330,000, less Taxable Market Value $322,000, x 1% is our Tax Capacity, $3,220. City tax is $3,220 x 33.74 LTR is $1,087 per year, which is $90.54 per month or $3.02 per day. For all services received, $3.02 per day is a pretty good deal. Levy per Capita: Cottage Grove is second to the lowest in Washington County.

Long Range Financial Management Plan

A 10-year fiscal plan for all tax-supported funds. It integrates existing debt, CIPs, future debt, tax base growth, and future operating costs. It assures all capital, maintenance, and staffing needs are met and there are sustainable resources.

- Helps manage expectations for staff, for Council, and for the residents.
- Helps maintain assets and fund balances.
- Reduces stress during budget development process.
- Reduces reactivity amidst an unpredictable fiscal environment.

Results

- Results in an integrated budget, tax policy, and capital plans.
- City Council can focus on the big picture and policy issues.
- Annual budgetary process dovetails with long-term goals.
- City Council can focus on long-term financial health of the City, not on single-year tax impacts.
- Projects tend to be less controversial, as it provides background/perspective on issues for discussion and provides framework to make informed decisions.
- The City has a vehicle through which to inform stakeholders.

This is a fluid document, it's not set in stone, and will be routinely monitored and updated on an annual basis, based upon what changes have taken place.

Assumptions

1. General Fund reserves are maintained at 45% of expenditures in 2024 and will be increasing to 50% by 2031.
2. Incorporated and funded additional staff per your City Staffing Plan through 2024:
   One additional firefighter/paramedic added annually from 2024-2026.
   $540K budgeted for five (5) To Be Determined Additional Staff in 2025.
3. All capital projects are incorporated per the respective CIPs. We have NOT identified funding for all park capital and park trust projects, but all other projects have identified funding sources. Placeholders used for 2028-2032 for streets, pavement management, parks, and park trust fund.

4. Capital Projects and Equipment Costs 2023-2032=$147,200,000.
5. Existing tax base increases 2% annually.
6. New residential and commercial development growth built in: Residential-230 to 425 new homes built annually from 2022-2030, $9.1M in Tax Capacity added from 2024-2032. Commercial-$50M in value built annually from 2022-2024, reducing to $26M by 2030.
7. 2% increase in revenues, 4% increase in expenditures, 4% CIP inflation. Arena revenues increase 2.5%; Golf revenues increase 3%.
8. $113.3M in projected debt over the next 10 years: $54.5M 2023-2027, $58.8M 2024-2032.

Additional Staff

2023: Added 4.5 people. 2024: 5 people anticipated. 2025: 7 people (5-person placeholder). 2026: 1 person anticipated. For every staff person added, it's about $7 annual cost to Home #1, or .55% increase in the tax levy. Staffing Comparison in Washington County Cities >15,000 Population: Cottage Grove is on par with Oakdale and has less staff per capita than Woodbury and Stillwater.

FUNDS

EQUIPMENT REPLACEMENT FUND: **$15.9M in equipment costs over the next 10 years**: Streets-$4.7M, Parks-$2.3M, Fire-$2.1M, Other-$1.2M, Police-$5.6M (Police squads are now paid out of the General Fund but recommend moving to Equipment Replacement Fund). $1.2M is received annually from the General Fund 2024-2032.
KEY TAKEAWAY: Equipment Replacement Fund is depleted in 2025 and 2026 due to large purchases (fire pumper) and will slowly rebuild over time.

Items to Consider

1. Establish a fund balance goal equal to annual average expenditures of approximately $1.1M.
2. Move squad car replacement costs to this fund.
3. Levy in this fund rather than transfer in from the General Fund (is transparent and helps maintain fund balance policy).
4. Issue Equipment Certificates when it makes sense (helps with short-term cash flow and can be less expensive than delaying purchase in an inflationary environment).

STREET PROJECTS FUND: **$49M in Capital Projects**

2023-2027 Capital Projects:

- 2023-No debt issuance planned
- 2024-East Point Douglas Road & Jamaica Avenue, Shoppes at Cottage View
- 2025-Harkness Avenue, and CSAH 19 & Highway 61
- 2026-Shoppes at Cottage View
- 2027-Shoppes at Cottage View, Jamaica Avenue (Rose of Sharon to Military)
- Inflated 4% annually, $4.5M average annual cost, fully funded by debt

2028-2032 Placeholders: $5.7M in 2028, inflated 4% annually thereafter; $6.2M average annual cost; Fully funded by debt.

PAVEMENT MANAGEMENT FUND: $58.7M in Capital Projects

2023-2027 Capital Projects:

- Inflated 4% annually
- $5.2M average annual cost
- $4.5M average annual debt
- On average, 14% of costs paid for by Utility Funds

2028-2032 Placeholders:

- $6M in 2028, inflated 4% annually thereafter
- $6.5M average annual cost
- $5.6M average annual debt issuance
- On average, 14% of costs paid for by Utility Funds

KEY TAKEAWAY: The fund remains healthy due to routine bonding.

Items to Consider:

1. Establish a fund balance goal, recommend 35% of next 5-years annual average estimated capital spending (already meeting this goal).
2. Issue less debt in years with increased levy burden, utilizing cash.
3. Closely monitor construction costs and adjust plan accordingly.

PARK CAPITAL IMPROVEMENT FUND: $6.1M in Capital Projects

- Inflated 4% annually
- $686K average annual cost from 2023-2027
- $500K Placeholder in 2028, inflated annually thereafter
- Major Projects: Kingston Park, $675K in 2025; Sport Lighting Improvements, $1.2M 2023-2027

Capital Funding:

- $360K annually from cell tower revenue, net of related legal expenses
- Capital costs exceed funding, causing fund balance to go negative in 2027
- City will monitor upcoming projects and identify additional funding as needed

Council Member Thiede asked with all the dollars being used in the CIP if that's the actual dollars shown in the current CIPs; Stacie replied that's correct. Council Member Thiede asked if those are all Cottage Grove dollars, if some of them might be combined with Washington County or another city or if they discount that. Kyle replied they were only picking up Cottage Grove's share of the costs. Another thing to note on the CIP dollars is we applied inflation to the numbers, except for the Equipment Replacement Fund.

KEY TAKEAWAY: Need to identify additional funding to complete scheduled park improvements.

Items to Consider:

1. Establish a fund balance goal; recommend 50% of next year's expenditures or approximately $300K.
2. Identify additional funding sources.
3. Closely monitor construction costs and adjust plans accordingly.

PARK TRUST FUND: $12.9M in Capital Projects

- Inflated 4% annually
- $2.1M average annual cost from 2023-2027
- $750K Placeholder in 2028, inflated annually thereafter
- 2025 Hamlet Park and Mississippi Dunes totaling $12.3M not included

Capital Funding:

- $450K annually from Park Dedication fees
- $1M in anticipated grant funds in 2023 for Mississippi Dunes
- $4.8M debt issuance in 2023 to complete Glacial Valley Park
- Fund balance projected negative in 2022 and beyond
- Potential sales tax and/or additional debt issuance

KEY TAKEAWAY: The City needs to identify additional funding sources if they want to complete proposed projects.

Items to Consider:

1. Should we establish a fund balance goal?
2. Identify additional funding sources: Sales Tax; Debt Issuance; Increased Park Dedication Fees.
3. Closely monitor construction costs and plan accordingly.

ECONOMIC DEVELOPMENT AUTHORITY TRUST FUND: Funded with donations, land sales, etc.

KEY TAKEAWAY: The City continues to deplete EDA Trust Fund balance so is unable to maintain sufficient funds to support robust development and redevelopment activities.

Items to Consider:

1. Keep fund balance at current 2022 level of $4.7M.
2. $1.45M for South District Project 2023 drops it down to $3.2M; determine how to replenish.
3. $100K annual contribution to EDA Fund.

ECONOMIC DEVELOPMENT AUTHORITY (EDA) FUND: Funded with EDA levy, lodging tax, and $100K annually from the EDA Trust.

- $125K annual EDA levy (12% of maximum)
- $72K average annual lodging tax from 2023-2032
- $100K annual transfer from the EDA Trust Fund (starts to deplete fund balance)
- $828K average annual expenditures, 40% employee services (approximately $287K) and 60% contractual services
- No capital spending
- Fund balance is negative in 2021 and thereafter

KEY TAKEAWAY: The EDA Fund is currently negative and is projected to continue without identifying additional funding sources.

Items to Consider:

1. Identify additional funding sources (increased general levy or gradually increase to statutory EDA levy ($1M).
2. Fund employee services at a minimum with EDA levy.
3. Establish a fund balance goal.

GENERAL FUND BALANCE

The Unassigned Fund Balance is 45% of 2024's operating expenses, and we're increasing that to 50% by 2031. You tried to get your City policy at 55%, so we'll discuss how to change your policy to meet all expectations.

KEY TAKEAWAY: City needs to levy additional dollars from 2024-2032 to maintain unassigned fund balance of 45-50% of next years' expenditures.

OVERALL CAPITAL & EQUIPMENT NEEDS: $145M over the next 10 years, and that excludes majority of Park Trust projects; these are things that must be done.
Debt Levy**:** 2023 is a big year, but Streets and Pavement Management are the two largest amounts. This is what the City will be funding in 2023.
KEY TAKEAWAY: New debt service levels, as proposed, will exceed current debt policy but are necessary to complete street projects in the CIP.

Items to Consider:

1. Review and update Debt Policy, otherwise you will be noncompliant beginning in 2025.
2. Current Policy: Annual debt levy is less than 15% of annual General Fund operating expenses.
3. Percent increases from 12% in 2023 to 28% in 2023.

- Existing Debt isn't a lot, 9 outstanding bonds; 3 of them will be paid off in the next 10 years.
- We look at debt issuance that you have to do, try to layer that in with your levy needs, and try to balance that with your priorities, what you want to fund, and what you want your levy to actually look like over time.
- Current debt policy is very restrictive; most cities have very flexible policies for their debt.

COMMUNICATING BUDGET IMPACTS

What do you think is the best way to communicate impacts to the residents, what makes the most sense to the average homeowner or business owner? Three common ways used: Increase in the Tax Rate; Percent of levy increase or budget increase; Dollar impact, which this Council uses. For an average home, here's how much it will be per year, and that's what people understand. Tax Levy & Rate Trends: We put everything in here, all capital needs, streets, equipment, and staffing, and here's what's going to happen with your tax levy: In 2023, you have a 12.6% increase; around the metro, we're seeing a lot higher elsewhere. The next two years are going to be your big bump; you're playing a little bit of catch up to get to where you need to be able to pay for everything in the future. What does that mean to the average value homeowner? 2020-2022, three-year average: $9 more in taxes, though 2022 had a decrease of $38. 2023= $114 more in taxes; 2024=$229 more in taxes; 2025=$90 more in taxes; 2026-2032=Under $95, range is $48 to $94. Property tax impact per day on median value home: 2023=$91 per month/$3.02 per day. Over the next five years, it will range from $3.65 to $4.44 per day on an average value home.

PROPOSED CHANGES

1. Add 1 new fulltime employee (FTE) annually from 2025-2029 rather than 5 new FTEs in 2025.
2. Move squad car replacements to Equipment Replacement Fund; more transparent and reduces level of need for additional levy to maintain Fund Balance policy.
3. Issue Equipment Certificates and implement gradually increasing levy, which levels out levy impact in the short term, eliminates long-term reliance on Equipment Certificates, and provides a reliable revenue source long term.
4. EDA funding increased to cover staff costs.

5. Utilize a portion of Closed Debt Fund balance to reduce debt levies.
6. Utilize a portion of Pavement Management Fund balance to reduce debt issuances.

Leveling the Impact with Proposed Changes: The City property taxes will decrease in 2024 but will increase modestly in 2025, and:

- Equipment Replacement Fund levy of $400K beginning in 2025, increasing to $2M in 2031.
- $1.25M of Closed Debt Funds used.
- $1.25M of Pavement Management Funds used.
- EDA levy increases from $125K to $286K in 2024 to cover budgeted personnel costs, inflated annually at 4% thereafter.
- The City property tax increases will decrease for both 2024 and 2025, which is on par with 2023.

Five Year Property Tax Levy Per Capita: We assumed other cities in Washington County will not change their levy, which we know isn't true, as they will most likely increase. Even with the other levies staying the same, and only changing ours, in year five you'll move from the second to the lowest to the middle of the pack.

CONCLUSION

The Financial Management Plan (FMP) responds to the strategic direction of the City Council as well as the needs of the organization and the community.

- Some of the issues identified by the FMP will take a few years to address.
- Biggest impact found in 2024 and 2025.
- Outstanding issues to resolve really aren't that significant.

Need to balance financial needs with Strategic Priorities and Organizational Values:

- Watch the balance of various funds, especially as additional revenue becomes available.
- Property tax impacts depend on the timing of additional expenditures.
- Borrowing limited as much as possible to meet capital needs and lessen property tax impact.

COUNCIL DIRECTION/CONSENSUS

1. Fund Balance Policy-Update to a range of 45-55% of next years' expenditures
   - Exceeds Office of the State Auditor recommendation of 42%
   - Provides financial flexibility while remaining fiscally responsible
2. Fund Balances-Are you okay with what we currently have in the FMP for:
   - Equipment Fund-$1.1M=Projected annual average of capital spending from 2023-2032.
   - Pavement Management-$2.5M=35% of next 5 years' annual average estimated capital spending (already meet this).
   - Park Capital-$300K=50% of next year's expenditures.
   - Need to Discuss: Park Trust-What should it be, if anything? Annual expenditure of approximately $400K; ED Trust-Keep it at the current $4.7M? EDA-Focus on bringing fund balance to a positive number.
3. Equipment Replacement Fund
   - Move squad car replacements to this fund.

- Establish a tax levy and eliminate General Fund transfer.
- Issue Equipment Certificates for short-term needs (2024-2028).

4. Identify additional funding sources
    - Park Capital=Tax levy or bonding in later years, approximately $140K in annual tax levy.
    - Park Trust=Sales tax authority, tax levy, or donations.
5. Direction on annual dollar levy increase
    - For every $100K in levy=$6 increase on Home #1, median value.
    - Target amount?

1) Fund Balance Policy: Mayor Bailey stated they'd like some Council guidance on changing our current Fund Balance Policy to 55%.

Stacie stated rating agencies always want to see you stay within your balance, so as long as you have a range and you're within your range, they'll be okay with that. It's been at 55%, but that's expensive; you can do a range of 45 to 55%, maybe your goal is 50% and that's what you put in the plan. That still looks really good.

Council Member Olsen stated one of the reasons for that is previously the City was in a position where development was lagging. In order to achieve an objective set by Council many years ago regarding our debt rating, the City Administrator at that time felt being in a stronger cash position was necessary. Not only have things balanced out but they've also turned, so 45% seems reasonable. The only risk is how is that going to look to the bond houses. If you can assure us that it's not going to have a disparate impact on our current bond rating, that's helpful.

Stacie stated one of the things rating agencies look at is they'll be glad that you're doing a 10-year plan; that's also important to them. They can see that you're doing long-range planning, so if you're going into your reserves, it's okay to do that, but they want to make sure that you're building them back up, it's in your policy.

Mayor Bailey stated the State recommendation is 42%.

Council Member Thiede stated what if our rate starts at 42% and goes to 48%, and we kind of lean toward 45%.

Mayor Bailey asked Ehlers for their input because at some point we want to get that elusive AAA rating. He wants to make sure that whatever we do, like the 10-year plan for future Councils and staff, debt will cost less because with a better rating we get better interest rates.

Council Member Thiede asked if we went lower, would we still maintain our rating? Stacie stated their recommendation is at 45% to 55% and shoot for 50%. If your goal is a better rating over time, that seems appropriate.

Council Member Olsen stated that's reasonable, and it frees up some capital for some other things that we certainly need to do. He appreciates the fact that Stacie also mentioned our current Debt Policy; that's another policy that was implemented at a different time in the City's growth. Now things have changed, and we've been pretty conservative with our debt issuance for a long time; when we combine the two things, we're going to free up some capital to pay down some debt if we need to in our levy every year.

Mayor Bailey asked Council Member Thiede if he'd be okay with the 45% to 55%, as he knew he wanted it less with a target of 50%. Council Member Thiede replied that would be all right.

2) Fund Balances: Mayor Bailey asked when they did their 10-year projections for the funds and those increases, if they incorporated the projections from the Park Capital and the Equipment Fund? Kyle replied that the Equipment Fund drops below $1.1M with the pumper purchase but gets back up at the end. The goals for the Equipment Fund and Pavement Management Fund have been met in the projection; the Park Capital fund without another funding source was not projected to be met.

Council Member Olsen stated with some funds, legally we can't do anything with them and other funds we can. We always have cash set aside in some specific funds, like the Closed Debt Fund. He asked if that factored into this analysis at all, because there's certainly an opportunity to shift cash from one to another, if necessary, to shore up certain funds. Stacie replied yes, especially the Closed Debt Fund, as we used that to level out the levy.

Council Member Olsen asked when they look at funds that have cash in them, but they're not statutorily focused on any one given thing, are there going to be instances when we do the budget where we say we're going to need to divert that cash into this fund in order to make those capital expenditures work. Does that have any kind of a negative impact again on the way in which the bond house views us; he didn't think so. Stacie replied that it doesn't. Council Member Olsen stated we've done that before. Even recently, we've suspended our Fund Balance Policy and actually diverted all of those funds for one year into our Equipment Replacement Fund because it was necessary. There may be a time where we need to do that again, so we have the ability to be flexible with that.

Mayor Bailey stated that's true, he agrees with Council Member Olsen; the one thing that he would like us to think about as a collective Council is how do we make some type of a decision where we're keeping money going into them. There will be situations where we have a $2M fire truck we need, like the pumper. If we now move the squad cars into the Equipment Replacement Fund, does that then drop that fund even further? Stacie replied that is does a little bit, but that's where we got that $1.2M in the levy that's going in to help replenish that fund back up to its necessary level.

Mayor Bailey stated she'd spoken about Equipment Certificates, and we've never done those.

Council Member Olsen stated we've avoided those; 15 years ago, we were told by the City Administrator at that time that this is a never ever, we don't want to have to do this, that's not going to be good. Then we had a Finance Director who joined us shortly afterward who said yes, this is something cities do. We just haven't done it.

Stacie stated cities routinely do this for big purchases. You don't want to issue a $200K certificate to buy a truck, you pay cash for those. We're looking for larger numbers. If there's a lot of capital need that's all coming in at one time, we're looking at longer term uses, things you'll have around for more than 10 years, like snowplows.

Council Member Khambata stated he doesn't like that the Equipment Replacement Fund goes negative in 2025. He asked what steps we would have to take to avoid that.

Stacie stated to avoid that, you would issue an Equipment Certificate.

Council Member Olsen stated or we could transfer cash into that fund or suspend your Fund Balance Policy and push it all into one fund.

Council Member Khambata asked from a bond rating standpoint, is there any specific actions that we could do that look better than others to issue future bonds. Is there a preemptive step that we can take that's going to benefit us, from a bond rating standpoint, versus just letting the fund go negative for a year.

Stacie replied the funds going negative isn't going to be as big of a concern; we can talk about that with the rating industry, that's telling the story. We show that we're building it back up, so they understand that we had a bigger purchase. We like to go to the reserves last, which is the General Fund reserve. We like to go find all of our cash in some other places, within other funds from which we can transfer, we can just do that. That's where we go first and then we go to the General Fund.

Mayor Bailey asked if issuing a Certificate would be something we could do to prevent that fund from going negative. Stacie replied it's an option, but you don't necessarily have to because we build you back out of this. We're just trying to balance the cost of everything. We could look at that to see if it would really make a difference or a huge impact.

Council Member Olsen stated if it's part of our plan, the bond houses like to see that we have a plan. As long as we're consistent with our plan, they're not going to get too worried about it.

Mayor Bailey stated he's interested, as we've never done it; he'd be interested to know how other cities use them. He assumes Certificates are like a principal and interest payment; Stacie stated it's a bond instrument that you're selling to a third party, just like the City does for its bonds for streets, etc. You're capitalizing because you don't have the cash or you're trying to save for another big purchase. Mayor Bailey asked what the normal term is for Equipment Certificates; Stacie replied the maximum term is 10 years, so the asset has to have a useful life of at least 10 years.

Kyle stated if we move the squad cars to the Equipment Replacement Fund, we issue Equipment Certificates to maintain a positive fund balance, we don't dip negative at all. Right now, you're levying in the General Fund and transferring approximately $1.2M in it. In the model, we're eliminating the transfer, but we're levying directly into the Equipment Replacement Fund. It's just more transparent. We can build that levy up to $2M at the end of **2022**, so you have an established $2M levy in the Equipment Replacement Fund. You would avoid those Equipment Certificates in the future if you don't have some $5M need in fire trucks.

Park Capital: Mayor Bailey stated now we're basically doing $300K a year. Stacie said if you're going to have a fund balance in there, it should be $300K, which is 50% of your next year's expenses. Mayor Bailey asked when they did their projections, if they added that $300K into those projections; Stacie replied that was not added in.

Council Member Olsen stated in the big scheme of things, that's not a big number. Stacie stated they'll try to shoot for those numbers, keep those as they are, but these can be changed as needed over time.

Council Member Olsen asked them to please take into account the variables of our expenses as well as the cash balances in some of the other more liquid accounts. It would be good to have a menu of options.

Park Trust: Mayor Bailey confirmed the Park Trust was the money that we get from development. Stacie noted there are annual expenditures of approximately $400K in your Park Trust; she asked if that's a good policy to have or is it fine at zero? If you don't feel strongly about having a fund balance, if you want to figure that out later, we can start with a miniscule amount of $400K or $200K, and then figure out where we can get to a level where you feel comfortable.

Council Member Olsen asked Director Malinowski what she thought; she replied she thought we should shoot for the $400K. We're issuing debt right now for the Glacial Valley Park building, as we didn't have a fund balance available for it, so found other sources of revenue. Council Member Olsen agreed with Director Malinowski and thought we should stick with it.

Administrator Levitt reminded Council if the money isn't in that fund, we don't do the projects. When the money gets in the account, we can afford to do a project and do it. Unfortunately, we've been getting a lot of land dedicated from developers, but we don't have the cash coming in; if development gets to the point where we're not going to see as much revenue coming in, we're not going to have the money to develop the parks. So, we should develop that fund balance and come up with how much to eventually levy for those future improvements.

Mayor Bailey stated the reason we did Glacial Valley Park was because we haven't had money in these accounts, we kept pushing it off, and our neighborhoods want the parks. These parks are expensive, and if we want to get them done in a timely manner, where he'll still be around, it would be nice.

ED Trust Fund: Stacie stated you've been at about $4.5-$5M, which is a nice balance. That will be depleted down to about $3.2M because of a big project you'll be doing in the South District. Are you comfortable just keeping it at $3M or should we really be at $5M; $5M is a nice number for development or redevelopment. Cities that have been most successful probably have $20-$30M they're setting aside. Some use it for loans, then get that money back; some are selling land to get some cash back, so they always want to keep that balance. $30M seems like a lot of money, but that could be depleted tomorrow in 2-to-3 projects. You don't do the full redevelopment loan, as other cities do, so that's probably why it's more critical to have a higher balance. A balance of $4.5-$5M is not inappropriate.

Council Member Olsen stated the EDA is a tough one because of how we get funding in one of those two funds. The second challenge is there's land that's also owned by the EDA; what do we do with that land, do we sell it to bump up our fund or not? When we have a big project that we want to do someplace, it's a convenient place to look for an Interfund Loan or to make an investment in something that's going to help grow our local economy. We certainly want to have enough in there to do that, but we're not really in a full redevelopment situation like other cities. $5M sounds like a nice number, but are we going to use it to fund a full project, a down payment on something, as an incentive for somebody? There are so many ways to use it, it's just a little bit challenging to know what the right number is. He doesn't disagree that $5M is a good number, but is $6M a better number? He doesn't know.

Council Member Thiede stated this is like one of those projects in the South District that comes along, and we say let's use the Trust Fund. But what are different ways used to replenish the fund when we have something like that happen?

Administrator Levitt stated in 2023, some of the replenishment will come through some pending land sales. The real issue is even if we can replenish it and get it back up to $5M with land sales, we're still depleting it every year by $100,000 for staffing. We need to be cautious of that because that fund is going to continue to dwindle down. With the 80th Street and Highway 61 junction, our hotel study says that's right for a hotel. If we want to do property acquisition but don't have cash in the fund, we might not be able to seize the moment. That's a project we know that's right there on the edge of the horizon, so we should be cautious if we want to be able to get that.

Council Member Olsen asked Administrator Levitt if she had a recommendation on cautious; is it $5M, $6M, or $10M?

Council Member Khambata asked if that was to buy the land; Mayor Bailey replied it's not even just the land, it's the buildings.

Council Member Dennis stated if there was something big like that and we tapped into it, that could wipe us out in a heartbeat. He doesn't know a path back to $5M. He knows the value of the land that the EDA holds; we could sell every piece, every parcel, and get reasonable dollars. We're getting a $100K contribution, but that's net zero because we're paying staff. He just doesn't see a path back to $5M.

Council Member Thiede stated it doesn't look like the years 2019, 2021, 2022 were going down by $100,000 every year for staff. Administrator Levitt replied that's because we had land sales. We sold through a new broker and sold to Gardenworld and Enclave. When we sell to 95th and Jamaica and the other user that's on the other corner, those things help replenish it; that's what's been able to stabilize the fund. There are only so many more WAG parcels left, so we'll be able to replenish, but we're probably not going to be able to grow it.

Council Member Olsen stated he felt $5M was a good goal.

Council Member Dennis stated we can make it a goal, but how do we get there?

Mayor Bailey stated we'll get there with these other land sales, but long term there will be no more real land sales going into that fund.

Council Member Thiede asked how did we get it up to $4.7M over time? Administrator Levitt replied a lot of the WAG property sales, and Mayor Bailey added it was the Business Park. Council Member Olsen stated we ended up in really good shape on those; Mayor Bailey commented but that's almost done. Administrator Levitt stated we have less than six properties, and half of those are probably sitting on bedrock, so aren't very marketable; there are a few more properties on which to seize that opportunity.

Mayor Bailey asked if it's this fund or the other fund where there's the EDA levy. Stacie stated it's the other one; the Trust is just your land sales and donations. We go to the EDA Fund, which is negative and will continue to go negative because what you're putting in there for funding isn't enough to cover contributable staff salaries. You have the ability to go up to a statutory maximum levy for this over time, and that would get us out of the hole. At a minimum, you want to go to the ED Trust and put $100K in the EDA Fund. If you're going to have the EDA Fund where you pay staff salaries, then you

need to put the appropriate levy towards those EDA salaries to cover that and get it out of the negative. That's where you build it over time; funding sources are also going to give you some dollars to do some other projects in the future.

Mayor Bailey stated if we built this up eventually, because this is levy driven, in the future it would do more than just pay staff; we could use dollars from this, coupled with the EDA Trust, which Stacie confirmed. She stated they could choose to put levy dollars in the ED Trust. Think of this as combined, though we like to keep them separate; this is your economic development engine to do certain projects and things that you want to do as a whole.

Council Member Olsen asked if they were able to deep dive into who's being charged where because periodically those balances change. He wonders if there's a need for us to reexamine all of those allocations again to see if we're paying for the right things out of this fund. It's pretty transparent to tell somebody we're paying for staffing for a specific need. He wants full visibility, just wants to know if the fund is supporting the service or if it isn't. If it isn't, then there are decisions that need to be made. There are always ways you can prop something up, but is that the right thing to do? He doesn't know the answer unless he has truly accurate, transparent numbers.

Stacie stated many cities have one EDA Fund, not separate like yours, and the majority of their EDA levy, their statutory amount that they can use, whether it's 20% or 100%, is going to staff salaries.

Council Member Olsen asked if she would combine these two funds. Stacie replied she didn't know how this happens; she thought it was just personal preference of the Council. Council Member Olsen confirmed that we're not required by law to have an EDA Trust and a separate EDA Fund. Stacie stated she'd leave that up to the Finance Department, as they have to manage it.

Council Member Khambata stated over the course of the projected 10 years, if we're bringing on $9.1M a year in additional Tax Capacity, are you factoring that we're still staying around that 33% tax rate even though our capacity is increasing? He's curious where we're getting $113M in Debt Service over 10 years without raising our Tax Rate, unless our increase in Tax Capacity is covering that. Stacie stated no, it's not covering all of that. He stated so we're going to tax on more Debt Service, and our Tax Rate is also going to increase.

Council Member Olsen asked if they'd factored in a flat number for Tax Rate growth, 2%; Council Member Khambata stated the cost of everything is going up by 4%. Stacie replied we'll get to affordability in a minute.

Stacie asked if Council was good if they tried to fix at least the EDA Fund, to put in a portion of the levy to at least cover staff salaries? Then we'll work with staff on the ED Trust.

Mayor Bailey stated yes, he thought that was good. He asked what's our EDA levy, 1%? Administrator Levitt replied we don't levy specifically for the EDA. Our donations were previously at $356K, and we've only been getting about $150K, so our donations have drastically declined in the last three years.

Council Member Olsen stated we used to just do a fund balance transfer. Administrator Levitt stated now the donation is significantly less, and in the foreseeable future, we don't see that it will go back to over $350K. Some years it was about $425K.

Council Member Dennis stated realistically the only way we're going to get back to $5M is if we hold true to the thoughts that were put forward in agreements to take and provide River Oaks with that loan. Two years down the line, in 2025, issue that as debt bonds to cover it, and then take that money and put that back in the Trust Fund. Without doing that and looking at the net effect of costs vs. income, it's a hard way back, even with the few parcels of land that we have. If we want to really get it back to the $5M, we must maintain that promise, and this time there can't be a situation where the Council says we just have to write off that charge and forgive it. If we want to have $5M, we must put that money back, that's it.

Mayor Bailey stated that's on the Trust Fund, which Council Member Dennis confirmed; Council Member Dennis stated there's nothing else that can be done.

Stacie stated you must figure out how to recycle the dollars, and there's interest growth.

Council Member Dennis stated Mayor Bailey and he are on the EDA; he stated that money was in there, and we worked with the staff, and we bent to let this thing happen. That may not necessarily be where we want it to be. As Council Member Olsen said, we would like to have the opportunity to utilize some of the funds for different things, different purposes and directions, to do things that provide the benefit to our community by having an Economic Development Authority. If we don't have the money there, that's going to greatly lessen the potential for what we can do if, and, or when certain things come along.

Council Member Khambata stated that has to be our minimum Standard Operating Procedure moving forward: Anytime we do a loan like that, it has to be with a strict understanding that wherever that money gets loaned out to, that department is going to bond for it within a year or two and put it back in the fund, so that we're never without our minimum for very long. He would be okay with that. To Council Member Dennis' point, he sees a hard path back to $5M, anyway we look at it, even with land sales.

Council Member Olsen stated staff would tell us we can accomplish anything we want to accomplish; it's just a question of what we're willing to do to get it done. We could always just levy for the EDA. It's absolutely something we can do. We just have to understand that the levy will then increase.

Council Member Dennis stated the EDA is also a taxing authority, and that's an option that we've never taken. At some point in time, if the community wants to see a vibrant economic development program, then that would be an option on the table. If we run out of funds, there's not going to be any opportunity.

Council Member Olsen stated that's one of the variables he spoke about earlier; there are many ways to do this, it's just a question of what's the appropriate way.

Mayor Bailey stated looking at this fund, levy dollars could be dedicated to the EDA. It was said many cities don't have two separate accounts, ED Trust and EDA Fund; is there any reason or thought process to combine them, or not? Is there a reason why we have two separate funds; does it make sense to leave it that way?

Administrator Levitt stated donations that come in are not driven by taxpayers, so some of the activities that we do stay in that pot. We keep our operational items in this one and draw on it as necessary. It's more your decision of how we proceed with those two funds.

Council Member Dennis stated structurally, it would be an integrity piece for transparency and separating out the pots of money. Nobody can lay a claim to the money that comes in as donations; that's specifically designated for that use.

Mayor Bailey stated when we first started going to ICSC in Vegas to market the City, we used that money because we were getting chastised for using taxpayer money to market the City.

Stacie stated we'll fund the staff through the EDA Fund. It seems Council is okay to try to get to $5M if there's a path there to get back to that. Let's have some plans for programs or other things to target for where we want to spend that money. We could increase your EDA levy up to the statutory maximum of around $1M. We don't have that in the model that we did, but it's something we can look at down the road as we get into our next iteration, to figure out how we can get more funds available for economic development efforts.

Mayor Bailey stated we're interested in knowing that; we understand that the other fund is eventually going away. At some point, there's not going to be other revenue that's coming in there. So, we'll need a different funding source that will be able to drive that economic change or redevelopment that we need to do. Mayor Bailey stated we're going to have to do something, even beyond staffing, on this one.

Council Member Dennis asked if Stacie said we need to have a plan on how to spend the EDA Trust money; she replied no, that's for any money that you have. Typically, when you're building your pots of money, one is Economic Development, so what are you doing for residential loans, for business loans, what's your objective? Do you have strategic priorities you're looking at for acquisitions of land you want to get for redevelopment? It's a basic plan, always in the forefront for Council and staff; we're going to spend $1.5M, and you know because you planned for that. It was one of our strategic priorities.

Administrator Levitt stated many times there are exception parcels that might not go into development, like NorthPoint, where there was one hold-up parcel. In that situation, we had a partner who was willing to acquire it, but if that situation happens in the future, you want to be able to tap that cash to bring that other parcel into the development to make it cohesive and maybe not have an eyesore associated with it. There are a few parcels in town where that could be the case.

Council Member Dennis stated historically, we did a big deal with Home Depot and Rainbow; that was a blight in the public eyes for years, it affected people negatively, and was a decimated business district. We had the money, and we were able to do something. He'd always advocate that we have some funds available so if there's an opportunity, we can make that happen.

3) Equipment Replacement Fund: Stacie stated we're moving the squad cars into this fund for transparency. There's a levy that goes into this fund. We spoke about Equipment Certificates; we'll look at those options.

4) Identify Additional Funding Sources: Park Capital is $140K annual tax levy, to get money for that $300K fund balance. We can program that in and see where everything falls.

5) Budget Impacts/Direction on Annual Dollar Levy Increase: This is what Council decides: What it costs the individual homeowner, is it a percent increase in your levy or

is it tax rates? The Closed Debt Fund will take care of some issues. In 2024, it's going to be $128 increase on a homeowner; in 2025, $122 increase; in 2026, it will decrease to $60. That's where we need some general direction. What makes sense to Council, what will seem affordable to residents? Again, the $128 increase in 2024 is .36 per day, similar to 2023.

Council Member Thiede asked if she was assuming a certain increase in property value each year for this; Stacie replied yes, we built in gross assumptions with the number of single-family homes coming on, commercial capacity coming on, and the need to spread the levy over those.

Council Member Thiede asked what they used for the increase in the property value. Stacie replied they didn't use an increase in property value, they used the increase in Tax Capacity, which is what's used in figuring out what your actual budget is and your levy amount. In 2024, we have a levy of around $23M; in 2025, we have a levy of $26M. That's the cost of doing all your programs and projects. We used the Tax Capacity for the increase.

Kyle stated we assumed a 2% increase on existing homes, and then we built in all the other specific numbers, all the other growth on top of that. With the existing tax base, we assumed a 2% annual increase.

Council Member Thiede stated on the other graph, it showed the Tax Capacity is increasing, which means essentially a lower value; if a person's taxes increase a greater percentage than the cost of living, then that's a reduced value to the homeowner.

Mayor Bailey stated regarding communication, he thinks the easiest communication is the dollar impact. The average homeowner looks at their total tax bill, and don't necessarily look just at Cottage Grove. We can talk about the levy or what the percentage is going to be, but that doesn't mean anything to them. What means something to residents is what effect it will have on them; what's it going to cost them per month or per day.

Council Member Olsen stated previous Councils had leaned heavily on the tax rate, and that's what they communicated; Mayor Bailey stated we must give people perspective, they must know what they're getting in terms of value for their cost. We can help people understand for what we're doing with the levy this year they're getting an extra police officer, an extra medic, or adding two parks. That way people know it's going towards something. He leans on three different things: 1) Where Cottage Grove sits per capita, tax wise vs. other Washington County cities? It says the homeowner is getting tremendous value for what they're paying. 2) What is that cost per household or cost per day or cost per month. 3) What is the perspective; what are you receiving in terms of services for what you're paying. He's always been proud of the level of service that our staff provides to our residents for the cost that the residents pay for those services. Those are tangible things that people recognize. The tax rate is a number, but he thinks that's weak compared to tangible benefits that could be communicated.

Council Member Dennis stated there are tangibles and intangibles. The intangible piece is Director Zac Dockter, the guy who provides the fun in the community when you go to the parks and trails. There should probably be a way of melding that into this message, just like *Discover Cottage Grove* and all the neat things happening in the

community, all of the great opportunities that are here. It makes the community be complete.

Council Member Olsen stated just like the Strawberry Fest, people love that. They have no idea if that's a City event or staff event; they see cops and public works crews there so know the City has some involvement. They just love that event.

Council Member Thiede stated those have no effect on what taxes they pay every day or every year on their homes. Naturally, all of us create a story of value when we talk to the residents and try to justify what we're doing, but his general feeling after looking at all this tonight is that we're spending too much money. We must come to a certain point where people will be satisfied with a certain level of increase in amenities, etc. You get to a certain point where you get the long diminishing returns.

Council Member Olsen told Council Member Thiede this year we'll have the City send the Strawberry Fest a bill for all of the Public Safety and Public Works personnel who work Strawberry Fest, then we'll see if the Strawberry Fest can afford it. Council Member Thiede stated fine.

Stacie stated the direction they need from Council is leveling the impact model where we took care of some of the issues by using existing funds. In 2024 and 2025, we're going to have some blips similar to what you have in 2023, those two years pick up. Give us an affordability goal that you want to shoot for; are you okay with what we have, or is it something less or something more?

Council Member Thiede stated he wants the Tax Rate to be less than Woodbury. It showed that we were better than Woodbury on one graph, and then you're projecting us to be worse than Woodbury on the next one. Mayor Bailey told Council Member Thiede that's not apples to apples. Woodbury will not be the same.

Council Member Khambata stated an annual increase of $229 on House #1, a $329,000 house, is $1,029 in tax. If we're going to ask somebody to pay a 25% increase in City tax in one year, he thinks that's going to hurt. If you take that same house and you rewind 10 years, that was maybe a $200,000 house or a $170,000 house 10 years ago. So, their taxes have already doubled in 10 years, assuming they've lived there for 10 years. These numbers aren't isolated, they compound on each other every year. So, we're asking them over the course of the next 10 years to double their taxes again. He would strongly encourage that we soften the blow as much as possible and try to spread the leveling scenario out. Even so, to Council Member Thiede's point, he knows that where we're going to be in five years is not worse than Woodbury, because Woodbury's costs to run their City are going to go up. In doing this, our metric has to be to stay in the bottom quartile of our comparable cities in terms of the value that we're providing for a given rate.

Mayor Bailey stated he knows they did this, and it wasn't apples to apples, but he'd be willing to bet today that four-or-five years from now when we use this scenario, we'll still be near the bottom. Council Member Khambata stated he thought that should be our goal, because that makes us competitive. Mayor Bailey stated if we were just to jump without any changes to anybody else, it's going to look like we went up higher, but everybody else is also going to go up. We've always been down towards the bottom. He asked Director Malinowski or Administrator Levitt of all of those communities that are currently above us, and even if we moved up and everything stayed the same, how

many of them get Local Government Aid (LGA)? Our friends in Newport are the second highest in this grouping and St. Paul Park is the lowest, but they also get significant LGA. He believed Oak Park Heights gets LGA, though he didn't know about Stillwater, maybe Forest Lake. Woodbury and Cottage Grove do not receive LGA.

Council Member Thiede asked why don't we use those arguments to get LGA? Mayor Bailey replied we can't, the formula doesn't allow us to get LGA. Council Member Olsen stated it has to do with the percentage of aging infrastructure vs. new infrastructure; there's a formula for it. Mayor Bailey stated growing communities typically don't because with growth they can pay for the infrastructure. As communities get older, they're stuck; they just don't have any growth that's happening within their communities anymore.

Council Member Thiede stated like Council Member Khambata was saying, we give people in this community great value and fantastic services. If we can stay in that bottom quartile and stay below Woodbury, in terms of the levy per capita, then he thinks then we've got an excellent story to tell.

Stacie stated she thinks it's likely that you may, but it depends, as Woodbury has a different makeup than Cottage Grove, as far as what your tax base is, etc. So, you're in different competitive edges regarding the situation that you have. You may not always be totally lower than them, but you should probably end up staying there. With everything in your plan, there's really nothing that affects them. You're building roads, maintaining roads, maintaining your parks, your assets that you have. Your big expenditures we talked about in the Park Trust, we haven't funded those. So, you're going to fund those in different ways; those are the big, new, shiny things that you're doing. You're just trying to maintain what you have out there, and it costs you something to do that. That's just reality. As much as you would love to cut something, if you want to cut or slash, then that means that a service or staff has to go away as they don't equal each other. For some direction as we try to solve things and make things work for you, for what you want, it's .36 more than what you paid last year; it's a tax, and it is a percentage, and that's real. Is it affordable for the value or the service that they get? We need some direction or guidepost; is there a dollar amount that you want us to kind of shoot for, knowing we'll always try to keep it in the bottom quartile?

Council Member Khambata stated a $100 increase per year, if we can stay around that, .30 per day, $10 a month, that's an easy sell to somebody. Council Member Olsen asked if he's saying $100 a year for House #1? There are three other houses we use to compare. Council Member Khambata replied on the median-priced home, which is House #1. It's going to go up or down from there, if you're less than or more than that in terms of your specific home's value. He thought spreading it out makes the most sense. If the average-priced home is going up $229 in one year, that means the home on the high end of the spectrum is going to see a $500 or $600 increase in one year. Not that they're probably going to up and move, but as a Council, we pride ourselves on being fiscally responsible. He's also pragmatic about the fact that certain services need to be provided and they need to be paid for, so we need to be solvent in 10 years. So, we just have to rip off the Band-Aid and do it.

Council Member Olsen asked what's 12.6% of the average-value home for this year; how much is it? Stacie said for 2023, $114 was the annual tax increase. So, what's

12.6% on a $400,000 house; what would that amount be? Kyle stated Home #2 is valued at $373,000, and that's an annual increase of $127, compared to $114. Home #4 is valued at $414,000, and that's an annual increase of $140, compared to $114. Home #3 is valued at $463,000, and that's an annual increase of $139. Council Member Olsen stated so actually Home #4 is less than Home #3; Kyle replied Home #4 is slightly more than Home #3.

Council Member Khambata stated he's an advocate of the leveling approach.

Mayor Bailey stated if we did the leveling approach across, he thought we'd be fine. If you average it, then in 2026, we'd have a higher increase.

Council Member Khambata stated people will notice the change more than they will the increase, year to year. An increase of double is more than an increase of $10 or $20. In 2026, it would raise $56 vs. $66, but trying to keep the increases consistent and more predictable is going to make for more happy homeowners.

Council Member Olsen stated we have to remember the values of those properties are going to fluctuate, too. We saw historic increases this year in property values; they're going to decline next year, there's no doubt about it that they'll be less because of the market. Stacie stated it's always a two-year gap, it takes a couple years. Mayor Bailey stated if you look at this, that's what they've proposed, that's planned in there.

Stacie asked if others were comfortable with the leveling, trying to target more of a level $100 where we can, to be more consistent?

Council Member Thiede stated he's in favor of leveling.

Council Member Olsen stated the number is going to be what the number is going to be but keeping it at a more level rate on a consistent basis is always better. You don't want to have a rollercoaster if you can avoid it.

Mayor Bailey asked what happens if we say $100, using the table in 2024, it's now $128. Stacie replied their charge is to go back and say can we figure out how to level this and keep it all around $100. We may not make it in every year. Can that $128 be $120? Maybe, she doesn't know; that's what we need to figure out.

Kyle said in 2026, there's an opportunity there, as it currently says $66; so, that's what we'll go back to some of that we had built into 2024 or 2025 that might happen in 2026 to allow that to happen. We'll have to bring those impacts back to you.

Council Member Dennis stated this is a lot of information for all of us to try to understand and make an educated decision on. Council Member Olsen stated this is going to take some time, and Council Member Dennis agreed.

Council Member Thiede asked if a copy of this will be sent out to us; Mayor Bailey replied yes.

Council Member Khambata stated he appreciated all of their hard work.

Mayor Bailey stated this is our first shot at doing a longer plan; we haven't done this before.

Council Member Olsen stated as a growing community we're kind of positioned in such a way that we need to do it this way. We need to recognize that there are some constants that we're going to have to deal with, one of which is aging infrastructure vs. new infrastructure, and the different ways in which we manage and maintain those. The

necessity for additional equipment for a growing community, whether or not we can get it is another conversation. That's also something that we're going to need to address.

Council Member Thiede stated part of a 10-year plan should be to figure out what's going to age enough that we can get LGA, right? Mayor Bailey told Council Member Thiede that we'll never get LGA.

Administrator Levitt stated to Council Member Olsen's point, this is a lot to digest, as Council Member Dennis said. We want to make sure that Ehlers could verbally go through everything and not just give you a raw PowerPoint; so, we'll send that to you. We'll meet again in February and continue to refine the model, so what additional information do you need us to evaluate and bring back to you? You listed allocation of funds, some of the other debt allocations, etc., but is there some other information that you think is important? One Council Member said there's a lot of sausage being made behind the scenes, although we have not shown you the sausage. The question is what do you need to see next month as part of this?

Council Member Khambata wants to know when we implement a plan like this, how often do we go back and check our work? Because a few percentage points per year sounds like a rounding error until you start compounding them, and then exponential equations can take off quickly. So, he'd like to know how often do we go back and correct for assumptions that were either optimistic or too conservative?

Stacie replied its reviewed every year.

Council Member Khambata asked how often do we course correct? Council Member Olsen stated this would be one of those documents you compare against every time you do the budget. Council Member Khambata stated yes, so that in 10 years we meet our objectives. He'd like to see what's the action plan once something like this gets implemented to make sure that we're meeting our objectives.

Stacie stated what they typically do is look at it annually; so, Director Malinowski will have this as a model to move forward and look at. You massage it and maneuver it if you need to as different things come up. If something happens that you need to take care of, how do we do some other things? As Administrator Levitt said, we didn't show you all of the sausage, we peeled back some of the layers. There are some issues that we need to address or some things that you have to think about, and you're getting more detail than you might've gotten in the past, but we'll look at it annually. Every 2-or-3 years, you should really have a full-blown discussion again, to make sure all policy makers and objectives are in line, in a format like this and you're again moving forward.

Council Member Olsen stated the truth is we're dealing with a dynamic economy that we haven't had to deal with ever, and things are changing very rapidly right now. If you look at things historically, a once a year here's our plan, let's compare our plan to where we are today, ensure that the variables get readjusted based on current market conditions, that would be adequate. Right now, and over the past few years, we're dealing with exorbitant labor costs and exorbitant costs of materials because they're unavailable, and so many other things that just aren't "normal." Once this starts to normalize, he thinks it will provide tremendous guidance in terms of that budget dialogue every summer.

Council Member Thiede stated the thing that we need to be careful of, though, is to be putting price increases that are permanent in place. He asked in terms of timing in discussion of this, this is kind of like Strategic Planning, right? He thought we should kind of incorporate some of this into the Strategic Planning Meeting.

Mayor Bailey stated sending them back to kind of reformulate things for a separate meeting, we can talk about some of this at our Strategic Planning. He would suggest that once they take this data back and we have another workshop, it will give us an opportunity to see what numbers they come up with and if there are any tweaks to what we somewhat discussed today on directions of the different funds.

NEXT STEPS

- Refine plan based upon Council direction
- Future workshop session to review
- Finalize plan

Administrator Levitt stated their anticipation is coming back for a second meeting in February, in another workshop setting, based on the direction and the information you desired. We'll go back and tweak the model and provide those results. If it's acceptable, then we have a plan going into the budget; if it's not, we go back and continue to refine.

Stacie thanked Mayor Bailey and the Council, stated this was a lot of information to throw at them. It's very apparent that this isn't their first rodeo, that they understand the numbers in budgets, and how everything works. They really appreciate that.

B. Local Option Sales Tax Workshop on Financing
Staff Recommendation: Receive information regarding financing and bonding information relating to the Local Option Sales Tax.

Administrator Levitt stated since Stacie was here, we wanted to have a discussion on the finance part of the Local Option Sales Tax if you had any questions for her regarding the projects. We brought forward three projects, totaling $30M, and we can generate about $14M for that. If Council has any specific financial questions, Stacie can answer those; how the debt is structured, or anything related to those items.

Council Member Olsen asked if we were going to have another opportunity to talk through which specific projects we may want to target, if and when we decide to move forward with something like this.

Administrator Levitt stated if you'd like it in a workshop setting, it may have to follow the legislator meeting next Wednesday because we need to pass a resolution by January 18 so we can meet the deadline. If you wanted to dialogue about it in further detail, then we could tack it onto that legislative meeting that we had originally scheduled from 6:00 to 8:00; we could do it after that if you want to dive into more detail on the projects and want more of a discussion. Otherwise, we really need to have that resolution set for approval on January 18.

Council Member Olsen stated the last time we talked about this, he expressed some concern about one of the projects, and he still has that concern. He'll leave it up to the rest of the Council on how they want him to address that concern. He can certainly

address it in writing or one on one, but he thought a key element of this conversation is understanding that this doesn't happen without the public voting to make it so. In order to get the public to vote to make it so, we have to appeal to the public with the projects that we're going to be putting on the menu. We need to ensure that we recognize what it is that feels important to the public vs. just the people in this room.

Mayor Bailey stated based on that, let's do a workshop afterwards. He asked Director Dockter if they could be at the next meeting with the three projects and their regional significance message. Then the Council can discuss what projects they think would be the right ones to do. He stated he thought the ultimate goal was trying to raise money for future land purchase for property that we want to keep natural; unfortunately, this is not a way that we can do that. That was a bit of a change from what we initially discussed; we were hoping that we could raise funds to buy land that we could keep natural, as a prairie or forest.

Council Member Thiede stated he thought we also needed to add to that discussion the change in timing of houses getting built in the Mississippi Dunes development.

Mayor Bailey stated he and staff have had the opportunity to speak with Dave Gustafson, and there is a way that we can own that land; frankly, we have to own that land, or we could lose $1M from Park money from the State. What we're thinking and we'll discuss as a Council is we'll just go forward and make a deal with them on the property there; so, we will own what will be a future park along the river, no matter what happens with the rest of the property.

Council Member Thiede stated that's something we need to talk about; Mayor Bailey stated we can bring that up at the next meeting. Council Member Olsen stated there was an element of park dedication involved in that, which Mayor Bailey confirmed.

Stacie stated if you get the Local Option Sales Tax legislation in 2023, your next General Election is 2024. That's when it will be on the ballot, so your ability to issue debt is going to come in 2025. Put some fluff in your numbers, as many cities have big projects in there, and then the market isn't right with inflation, etc. So, we're hoping the legislature will do a course correction for an inflation factor, but it's not going to cover the additional costs incurred. Don't worry about a maximum bonding number; a couple cities got approved last year and intentionally over inflated their numbers, even though they know they can't raise the sales tax enough because it's a maximum. You're held to the project, and you're held to the maximum bond amount, unless they give you an inflator; so, sometimes it's okay to have those numbers be different.

Administrator Levitt stated we're also struggling with how much growth will happen in 20-25 years; we know what we have today, so how much more revenue will we be able to generate in that time period. It's not necessarily setting the number at $15M, but setting it higher with that objective.

Stacie stated if you think you can only generate $15M over 20-25 years, that's not what you put in the Bill. You put what the project cost is and you go higher. If your choice is only to use sales tax, you can only issue so much in bonds and pay for only so much out of that. The thing to know about sales tax bonds is that it doesn't have to be 100% paid by sales tax; you can bring other dollars to it, other levy dollars if need be. That's what some communities are looking at doing because of the timing of their

legislation, etc. If they go high on your number, you're going to bond for what you're going to bond and pay for it how you want to pay for it when you get the contributions, if the voters approve it.

Mayor Bailey asked if Oakdale's sales tax passed; Stacie replied yes, it did. Last year, the Tax Chairs in the House and Senate didn't have a desire to fund projects like that; it was more about parks, community centers, and golf courses that were regional. Now, there's a new Tax Chair and Senate, so we'll see what happens.

Council Member Olsen stated we actually should get a Bill this year; he thought that would actually happen, and Stacie agreed we should.

14. WORKSHOPS – CLOSED TO PUBLIC - None.

15. ADJOURNMENT – 9:29 p.m.

Motion by Council Member Olsen, second by Council Member Khambata, to adjourn the meeting at 9:29 p.m. Clerk Anderson called the roll: Council Member Khambata-Aye; Council Member Dennis-Aye; Council Member Thiede-Aye; Council Member Olsen-Aye; Mayor Bailey-Aye. Motion carried: 5-0.

Minutes prepared by Judy Graf and reviewed by Tamara Anderson, City Clerk.