

**CITY COUNCIL WORK SESSION
CITY OF RAMSEY
ANOKA COUNTY
STATE OF MINNESOTA**

The Ramsey City Council conducted a City Council Work Session on Tuesday, September 3, 2013, at the Ramsey Municipal Center, 7550 Sunwood Drive NW, Ramsey, Minnesota.

Members Present: Mayor Sarah Strommen
Councilmember Jill Johns
Councilmember Mark Kuzma
Councilmember John LeTourneau
Councilmember Chris Riley
Councilmember Jason Tossey

Member Absent: Councilmember Randy Backous

Also Present: City Administrator Kurtis Ulrich
Finance Director Diana Lund
Public Works Superintendent Grant Riemer
City Engineer Bruce Westby
Assistant to the City Administrator Patrick Brama

1. CALL TO ORDER

Mayor Strommen called the City Council Work Session to order at 5:34 p.m.

Mr. Ulrich presented an agenda summary detailing the purpose of the meeting, anticipated timeframe, and expected outcomes.

2. TOPICS FOR DISCUSSION

2.01: Discussion of Proposed 2014 Budgets and 2014 Levies

Finance Director Lund explained the State has indicated the City can levy an additional \$931,000. She described budget Option A: Maximum General/EDA Levy at \$7,482,513, City read as intent of the Law-Netting Out Special Levies; Option B: Maximum General/EDA Levy at \$8,413,798 (This was City's total 2012 Certified Levy) for a \$931,285 increase per the Department of Revenue as of August 27, 2013, allowing Special Levies in calculation; and, Option C: Maximum General/EDA Levy at \$7,816,943, using Option A plus adding back \$59,430 (Strategic Planning) and \$275,000 for roads due to Tax Increment Financing (TIF) District 4 expiring December 2014. Strategic Planning items include Office Assistant to full-time, Police Department Officer starting January 1, and \$5,000 additional for Contract Communications.

Mr. Ulrich stated if the City Council supports a slight increase in levy, it is reasonable to replace one-time money (tax increment) that will not be available in 2015.

Mayor Strommen stated there is a \$1.7 million gap in funding the annual amount for road reconstruction but it will be a larger gap in 2015 because there will not be a TIF base since District 4 expires in 2014.

Finance Director Lund stated that is correct because TIF District 4 decertifies at the end of 2014. She explained that with TIF, the City receives about 90 cents on the dollar and without TIF, the City receives about 37 cents on the dollar.

Councilmember Tossey asked if the budget includes an increase for non-union employees.

City Administrator Ulrich stated it includes a 2.5% increase and that matter will be considered by the Personnel Committee for recommendation to the City Council.

Finance Director Lund reviewed the percentage of wage increases that are included in the proposed budget.

NOTE: Additional discussion on this item occurred following Case 2.02.

2.02: Consideration of Long-Term Street Maintenance Program (SMP) Cost and Funding Options

City Engineer Westby presented the Long-Term Street Maintenance Program (SMP), 2013 estimated costs, and funding options as detailed in the staff report. He noted the 2009 costs were higher because it assumed roads have a 40-year life span and would then have to be reconstructed. He explained the costs estimated in 2013 are based on a Pavement Surface Evaluation and Rating (PACER) of 7, assume a 60-year life span, and reflect regular maintenance.

Councilmember LeTourneau stated the City Council should consider a total of the first five years and then another total from 2019 to 2023.

City Engineer Westby stated that can be considered but he had followed suit to show a comparison between the 2009 and 2013 assumptions.

Councilmember Tossey asked why MSA is being included.

City Engineer Westby explained that the 2009 estimate assumed MSA roads would be maintained and reconstructed through the MSA allocation; however, those funds are being used to pay back debt and not available.

Councilmember LeTourneau asked to what is the MSA debt attributable.

Finance Director Lund stated it involved a Joint Powers Agreement (JPA) with Anoka County for Alternative Urbanwide Area Review (AUAR) improvements. That debt service totals \$500,000 to \$600-000 annually.

City Engineer Westby described traditional funding options for street maintenance and explained the need to consider alternative funding options. He noted that utilizing franchise fees to fund the City's long-term SMP would create a consistent funding source that can also fund maintenance at its prescriptive time/schedule. He acknowledged that franchise fees are essentially taxes and if supported by the City Council, staff would work with the electric and gas companies to properly word the notice to residents. He recommended establishing the same fee for both utility companies, noting the SMP could be funded through franchise fees along with the general levy and possibly some bonding.

City Engineer Westby described the method used by surrounding communities to fund street maintenance along with the pros and cons for identified financing methods, noting there are more pros than cons with franchise fees.

Councilmember Tossey stated the owner of rental properties pay taxes and renters pay taxes as part of their rent so he thinks it is a weak argument that franchise fees are also collected from renters who use the roadways.

City Engineer Westby reviewed the estimated SMP funding shortfall and stated with a franchise fee of \$5 per utility per month for residential and \$10 per utility per month for commercial, it would collect \$1 million annually. If the monthly franchise fee is increased to \$7 for residential and \$13 for commercial, per utility, it would collect \$1.5 million. He stated the City of Elk River has adopted a rebate program for property owners who are currently paying a road assessment.

City Engineer Westby presented staff's recommendation for franchise fees to fund the SMP. He requested City Council direction regarding its preferred funding option to help pay for the City's long-term SMP. If franchise fees are to be pursued, staff requests direction on the monthly amount to be charged each utility as well as a proposed sunset date for the ordinance. He noted most franchise fee ordinances tend to have a 20-year sunset date but in this case, it might make sense to apply a 5- or 10-year sunset date. It was noted that November is the soonest a public hearing can be scheduled unless a special edition of the *Ramsey Resident* is issued.

Councilmember Kuzma asked if a franchise fee would fund road projects and maintenance so residents would no longer be assessed for road improvements. If that is the case, residents would not need to petition against the improvement/assessment.

City Engineer Westby stated that would be the case if the franchise fee is set high enough to cover those costs.

Councilmember Tossey asked whether property taxes are deductible.

Councilmember Riley stated that is correct for a homeowner who pays taxes and itemizes but a franchise fee is not tax deductible.

Councilmember Tossey stated that may be a reason to not consider franchise fees, they cannot be deducted from taxes.

Mayor Strommen stated this is not an easy decision to make, and has been discussed by previous City Councils but a decision had not been reached. She noted that at this time, all one-time money has been used so a decision needs to be reached by this City Council. She stated the funding needs to be fair to the City's residents and of a sustainable nature. Mayor Strommen stated there will be differences of opinions amongst the City Council, and that is all right, but what is important is that all agree with the purpose (maintaining roads).

Councilmember LeTourneau stated the Strategic Plan is to use a PACER rating at 7 and asked if the dollar amount to maintain this rating is \$2.5 million each year.

Mayor Strommen stated staff has framed the question to look at the annual shortfall over the next five-year period, which is \$1.7 million. For the following five years, it will be a different number. She felt a five-year consideration was a reasonable term as taxes and revenues and street conditions may change during that period of time.

Councilmember Kuzma stated out of the \$2.5 million, the City Council is looking to fund a shortfall of \$1.7 million.

Mayor Strommen stated that is correct but when TIF District 4 decertifies in 2014, there will be a larger shortfall that will have to be addressed. This is why staff has suggested it could be partially addressed by building funds into the base at this time in anticipation of losing the tax increment after 2014.

Councilmember Riley asked if reconstruction has been assessed in the past.

Finance Director Lund stated it has not.

Councilmember Riley asked how roads are rated and if the rating drops each year.

Public Works Superintendent Riemer stated once roads are at a PACER 3, the road will stay at that rating for a while unless there is a change in truck traffic or water on the roadway. He stated the rating remains constant for several years before changing.

Councilmember Riley asked if staff's cost estimates have been reviewed by a second party outside of City Hall.

City Engineer Westby stated they have not but a quick estimation matches what you would expect for a City with the miles of roadways within Ramsey.

Councilmember Riley stated if the City Council does not support franchise fees, the levy can be increased to cover part of the cost. He asked if the City would then have to rely on special assessments to fund the remainder of the cost.

Finance Director Lund stated that would be the option.

City Administrator Ulrich stated if more than 50% petition against a special assessment, then the project is defeated. He stated that process has occurred with road projects in the past when the road could be petitioned against at 30% so there is history with that process.

Mayor Strommen stated the special assessment process is also expensive. In addition, residents are presented with a large bill that may not have been anticipated and is difficult to budget for. That is why residents are resistant to the project.

Councilmember Tossey agreed that the roads have been ignored for some time and a topic of discussion for years. He stated he is not a fan of franchise fees and supports Option C, Maximum General/EDA Levy at \$7,816,943, using Option A plus adding back \$59,430 (Strategic Planning) and \$275,000 for roads due to TIF District 4 expiring December 2014. Councilmember Tossey stated to bond, you have to assess 20% of the costs and he does not think there will be a lot of resistance to that amount of assessment. He stated with Option C, more will be levied. He asked where TIF is going.

Finance Director Lund stated the municipal center debt doubled from \$644,000 to \$1.2 million and other expenditures (employee benefits and health insurance coverage) have also increased.

Councilmember Tossey stated the City will then have to spend less and cut the budget to make up the shortfall. He objected to creating another revenue stream for the City's residents and supported funding the SMP by raising the tax levy and keeping a 20% assessment. Councilmember Tossey stated another benefit of that method is the tax deduction available to residents.

Finance Director Lund noted that if the funding is raised through an increased tax levy, business and industrial properties will be hit harder because it is based on evaluation.

Councilmember Tossey stated the City can expect its tax base to increase because the market is improving, property valuations are increasing, and there will be more development. He felt the revenue will be there to fund the SMP.

City Administrator Ulrich stated there is an option to bond without assessments by using a Five-Year Capital Bond. However, it would impact the tax capacity rate.

Councilmember Riley stated he appreciates that an assessment is not required but a Five-Year Bond for a 60-year problem does not fix the need for a constant funding stream because the City would then have to bond every five years.

City Administrator Ulrich explained the plan has to be for five years but the bond term is for 20 years.

Councilmember Kuzma stated he prefers to keep the levy down or the same and would strongly consider the franchise fee since most residents who have spoken prefer to pay a small amount. He stated the franchise fee can be identified for road funding and would provide a constant stream of revenue that is dedicated to roads.

Councilmember Johns stated the people she talked with in general prefer to have a steady amount instead of a special assessment. She stated she prefers that herself and since the City is trying to do a maintenance program, consistent funding is needed. With assessments, should there be a stumbling block, the maintenance project would not be completed when scheduled and would impact the rest of the 60-year plan. She felt franchise fees were the best method to fund that program as long as the City is open and honest about what the franchise fee entails.

Councilmember Kuzma stated he thinks franchise fees are fair because all pay the same since it is not based on property valuation.

Councilmember Riley asked how much can be dedicated from different funds for the SMP.

Finance Director Lund explained that if the use of franchise fees is approved, a Capital Project Fund would be created for road reconstruction. When franchise fees come in, they would be deposited straight into that Fund and offsetting expenditures would be taken from it. She stated when property taxes come in, it is a lump sum and not everyone pays taxes so then a percentage is transferred into such a Fund. Finance Director Lund stated with the last franchise fee, she had to prepare quarterly reports on franchise fees collected and expenses from that Fund.

Councilmember LeTourneau agreed that franchise fees are a revenue source and he does not want it to look like the City is “hiding behind” a certain size levy but instead is finding a solution for a significant funding need and that must be transparent to the public.

William Kingston, 15760 Andrie Street NW, stated he is a 20-year resident of Ramsey and thanked staff for all of the information presented in the staff report. With regard to the cost estimates, he asked how many miles of road were ranked at PACER 7 in 2009 and how many miles of road were ranked at PACER 7 in 2013. That will indicate the degradation of the roads since there has not been street maintenance during that time period. Mr. Kingston stated the bulk of the roads were constructed in the 1970s and asked if the City has inspection reports so the underlying soils are known. He stated he does not think the City has that type of information so while the City Council is trying to move from a 40-year road to a 60-year road, the roads may be in worse shape than the City thinks. He questioned how that can occur without first getting the roads up to spec.

City Engineer Westby stated Andrie Street is at a PACER 3, which means it would be reconstructed. When reconstructed, it would be to City standards for 60 years with a good sub-base constructed and a maintenance program followed.

Mayor Strommen explained staff’s 2013 estimates are based on the actual PACER ratings.

Mr. Kingston stated he did not think there was an add-on if the road is at PACER 3.

City Engineer Westby stated the life expectancy may not hit 60 years for every road due to the way it was constructed but there may be 70-75 years from some urban roads. He stated Ramsey has good sand soils so it should be able to get 60 years from reconstructed roads.

Mr. Kingston asked if non-taxable entities will pay franchise fees.

City Engineer Westby stated they would if they use those utilities.

Mr. Kingston stated he would like to know how many properties of that type are in Ramsey, noting that schools get their revenue from residents so he will also be paying for that fee.

Public Works Superintendent Riemer explained that a road at a rating of PACER 3, means the road would no longer be sealcoated and would be scheduled for reconstruction.

Pat Surma, 7930 161st Avenue NW, stated the City needs to keep it fair and the process transparent.

Mayor Strommen stated in an ideal world, she would also prefer funding the SMP through property tax but at this time, the City does not have the ability to raise the levy high enough to cover that cost. In addition, taxes are not always paid and some residents would be taxed but their road may not be fixed, which is also not fair. She stated she leans towards franchise fees with a sunset date in five years so it can be reevaluated at that time. Mayor Strommen supported having a conversation to assure the fees are dedicated for this purpose, and to learn more about a rebate program similar to that used by Elk River. She stated it is not a way to hide a tax and the City needs to be transparent in this process. Mayor Strommen stated if \$1.7 million had to be cut from the City's budget, it would be a severe impact to police, fire, or parks, which are all important to the City's residents.

Councilmember Tossey stated the \$1.7 million will be collected from residents anyway.

Mayor Strommen stated the City does not have enough levy to raise it high enough to cover \$1.7 million. In addition, the City is under levy limits this year and cannot increase the levy high enough to fund roads.

Councilmember Tossey stated the budget includes \$140,000 for the EDA, which is not an essential government service but police, fire and roads are essential government services. He felt it was nonsense to say the City does not have the money.

Mayor Strommen stated the shortfall is not \$140,000, it is \$1.7 million.

Councilmember Tossey suggested that the City then not hire an Economic Development Director. He stated in some cases, staff does not need to be increased. Councilmember Tossey stated the Legislature put levy limits in place for a reason and he does not support going around it by creating another revenue stream through franchise fees.

Mayor Strommen stated the City will get there and that would be her goal (fund roads through the levy) but because of levy limits, it will not be this year and possibly not for the next couple of years.

Councilmember Tossey stated it is an insincere argument to say the decision is whether to cut cops or firemen when the City is levying the EDA and HRA. He stated EDA and HRA are not essential services and he finds a franchise fee to be absolutely ridiculous.

Mayor Strommen stated there is not a list of options that add up to what is needed to fund the SMP without devastating consequences. She stated not all on the City Council will be at the same place at the end of this conversation.

City Administrator Ulrich asked if there is interest in maintaining 20% assessment.

Councilmember Kuzma asked if it has been decided what the franchise fee rate should be set at.

Finance Director Lund stated if the SMP costs \$2.2 million and \$500,000 comes from the budget, it would take a franchise fee of \$8 per month per utility for residential and commercial to raise \$1.65 million. If the franchise fee is increased to \$8 per month per utility for residential and \$16 per month per utility for commercial, it would raise an additional \$100,000.

Councilmember Kuzma supported a franchise fee with a sunset date. He stated this can be discussed all night but the City Council needs to find a solution to road funding and residents have indicated a preference for smaller payments.

Councilmember Riley stated either the City has to tax and assess or consider a franchise fee. He stated he cannot support both an assessment and franchise fee but does not have a preferred way.

Mayor Strommen stated there is majority consensus for a franchise fee; however, once the levy is set next week it cannot be increased.

Councilmember Tossey asked if the levy will not be the maximum allowed.

Finance Director Lund stated if using the maximum levy by adding \$931,000, the tax rate would be 48% (Option B, Maximum General/EDA Levy at \$8,413,798 [This was City's total 2012 Certified Levy] for a \$931,285 increase per the Department of Revenue as of August 27, 2013, allowing Special Levies in calculation).

Councilmember Tossey asked if the City Council is supporting an increase in the levy, franchise fees, plus assessments.

Mayor Strommen stated the City Council has indicated there is no interest in both franchise fees plus assessments.

Councilmember Tossey asked if there is an option for a \$4 per month per utility franchise fee.

Finance Director Lund stated that is an option if maximizing the levy.

Councilmember Tossey asked if the franchise fee is higher for commercial/industrial properties.

Mr. Kingston asked if some properties have both utilities.

Finance Director Lund stated the figures are based off numbers provided by the utility companies and the City of Anoka.

Councilmember LeTourneau stated he would like a lower levy because he likes the feature in the franchise fee to track and dedicate the funds specifically for roads and to be able to identify how the fees are being applied, creating additional transparency. He stated with franchise fees, that need can be called out to the residents along with whether it was over funded, under funded, over spent, or under spent.

Councilmember Tossey asked if anything prevents future City Councils from using franchise fees for anything other than roads.

City Administrator Ulrich stated another City Council would have to consider it was publicly dedicated but could consider another use by ordinance. He stated staff will look into language to create it as irretrievable as possible.

Councilmember Tossey stated he will oppose a franchise fee because he finds it to be a hidden revenue source. But if approved, he wants safeguards so a future City Council cannot use those funds to subsidize their "pet project."

Councilmember LeTourneau agreed there should be firmly established criteria. He asked what happens if the City Council decides to reduce or increase the franchise fee prior to the five year sunset.

City Engineer Westby stated it would require an amendment to the ordinance.

Finance Director Lund stated the fee will be established by ordinance, the same as other City fees.

Mayor Strommen stated it can also be eliminated if the City Council is comfortable that property tax revenue and can cover the costs through the levy.

Finance Director Lund stated in 2003 there was a one-year sunset on a franchise fee and quarterly reports were presented on the amount collected. At that time, the ordinance stated the use of the funds and after the third quarter the amount collected covered the LGA loss so the City Council sunset the fee at that point. In addition, franchise fees are received monthly whereas taxes are received twice a year.

Councilmember Tossey stated he would support forcing a five-year sunset so the City Council can review the property taxes collected, which he anticipates will be increasing. He stated he would not want the City to be flush with money while still collecting franchise fees.

Mayor Strommen supported a five-year sunset but her short-term concern is increasing the levy to the maximum in addition to starting a franchise fee. Rather, she supported one funding stream for the SMP.

Councilmember Riley stated all agree to restricting use of the funds and asked whether it can be done through the audit.

Finance Director Lund stated it would be established as a committed fund.

Councilmember Riley stated he likes the idea of using the original levy and not the maximum levy plus franchise fees.

Mayor Strommen asked for comment on a rebate program for residents who are currently paying a road assessment.

It was the unanimous consensus of the City Council to support a rebate program similar to Elk River's program.

Mr. Kingston pointed out that some residents may have paid their assessment in full.

Councilmember Riley suggested that be considered for the past number of years.

Councilmember Tossey agreed that even if the assessment was paid in full, the property owner should not have to also pay a franchise fee during the term of the assessment.

Councilmember LeTourneau stated he wants the franchise fee language to clearly state it is for a dedicated Ramsey Road Maintenance Fund.

Councilmember Riley asked if there is support for a flat franchise fee of \$7 per month per utility.

Councilmember LeTourneau supported a franchise fee rate of \$8 per month per utility or higher to assure there is adequate funding to meet the need and eliminate a shortfall.

Finance Director Lund reviewed the annual revenues raised based on franchise fees.

The majority consensus of the City Council supported a franchise fee at \$8/month/utility (both residential and commercial) that is dedicated for roads, a five-year sunset with "lockbox" language, no special assessments, and a rebate program for property owners already paying a road assessment.

2.01: Discussion of Proposed 2014 Budgets and 2014 Levies – Continued

Councilmember Riley supported Option A, Maximum General/EDA Levy at \$7,482,513.

Finance Director Lund noted Option A has the patrol officer starting in July 1, the Office Assistant at part time, and eliminates Contract Communication.

Councilmembers Kuzma and LeTourneau supported Option A, Maximum General/EDA Levy at \$7,482,513.

Councilmember Johns supported Option C, Maximum General/EDA Levy at \$7,816,943, using Option A plus adding back \$59,430 (Strategic Planning) and \$275,000 for roads due to Tax Increment Financing (TIF) District 4 expiring December 2014. Strategic Planning items include Office Assistant to full-time, Police Department Officer starting January 1, and \$5,000 additional for Contract Communications.

City Administrator Ulrich stated Option A has the lower levy amount, misses some of the Strategic Plan items, but includes the HRA levy. He noted the City may also receive some HRA funds from Anoka County that could be used to fund line items the City Council supports.

Finance Director Lund stated if you add back the Strategic Plan items that were cut, it would result in a levy of 43.68%.

Mayor Strommen stated \$59,000 is not a huge amount and it may be possible to reduce the HRA levy and Contract Communications can also be discussed. She supported Option A, Maximum General/EDA Levy at \$7,482,513, considering the City Council supports a franchise fee.

The consensus of the City Council was to support Option A, not adding in \$59,000 for Strategic Plan items.

Mayor Strommen stated the Preliminary Budget and Levy will be presented and approved at the September 10, 2013, meeting. The Levy will be finalized in December of 2013.

3. TOPICS FOR FUTURE DISCUSSION

Noted.

4. MAYOR / COUNCIL / STAFF INPUT

Councilmember Tossey stated the Highway 10/Armstrong Boulevard Interchange Subcommittee met earlier to discuss next steps and how to expedite the project. He stated the Governor did not favor the public/private partnership funding but it is felt there are still possibilities for lobbying efforts. Councilmember Tossey stated Representative Abeler will be working with the Governor about authorizing early design/build authority as there is bipartisan support.

Mayor Strommen stated City Administrator Ulrich will be working with Consultant Elwyn Tinklenberg to determine a short-term extension so the City is prepared for the upcoming bonding session. She stated this will be coming back for consideration by the City Council.

Councilmember Riley asked whether some of the Transit Station skyway lights can be turned off during the evening.

City Administrator Ulrich stated the City can make that request of Metropolitan Transit.

Councilmember LeTourneau stated the City needs to assure that lower level lighting does not impact safety.

5. ADJOURNMENT

Motion by Councilmember LeTourneau, seconded by Councilmember Riley, to adjourn the Work Session meeting.

The Work Session of the City Council was adjourned at 7:22 p.m.

Respectfully submitted,

Kurtis G. Ulrich
City Administrator

ATTEST:

Jo Ann M. Thieling
City Clerk

Drafted by Carla Wirth
TimeSaver Off Site Secretarial, Inc.