

M I N U T E S
COMMITTEE-OF-THE-WHOLE WORK SESSION
2007 BUDGET AND PROPOSED TAX LEVY
August 21, 2006
City Hall Conference Room
6:30 p.m.

PRESENT: Mayor Rietz, Council Member-at-Large Christopherson, Council Members Nordin, Baker, Hecimovich, Dick Pacholl, Scott Pacholl, and McAlister

ABSENT: None

STAFF PRESENT: Jim Hurm and Tom Dankert

ALSO PRESENT: KAAL TV-6, Austin Post Bulletin and Austin Daily Herald

Item #1 – 2007 Budget and Proposed Tax Levy – Mr. Dankert started the budget presentation by briefly discussing the August 7, 2006 Star Tribune article regarding the City of Duluth. Mr. Dankert noted their retiree and employee health care costs are literally forcing the city into massive tax increases or bankruptcy. In actuality the City of Duluth probably could not file for bankruptcy, but the State could certainly take them over. Mr. Dankert noted the City of Austin only has about a half-dozen firefighters that were bought out in the early 1990s that we provide health coverage for, and this only goes until age 65. This cost is annually budgeted for in the Fire Department budget.

Mr. Dankert noted, as directed at the council work session of July 10, 2006 to include the growth factor of 2.66%, the overall levy increase factor of 5.09%, plus the property tax surcharge of 10.00% for flood mitigation purposes in the 2007 proposed levy. This total will increase the tax levy from \$3,000,000 to \$3,532,500.

Mr. Dankert discussed the six page cover memo attached to the budget outlining the items that were requested, items that were not funded, and other general information relating to the proposed budget for 2007. Mr. Dankert noted there is no proposed funding for the Spamtown Belle in this budget, and the cable television revenues are budgeted to go up as Council appears to be on the verge of approving an increase in the franchise revenues from charter cable. The following items were discussed:

- Staffing requests – included in the 2007 proposed budget is the addition of a 14 hour staff person at the Library. Two 14-hour people were requested, but only one was funded. Park and Recreation has an additional park maintenance/arena maintenance person in the budget for 2007, as per the request. The Fire Department does not have their request of increasing the secretarial position from 15 hours up to 20 hours per week. The Engineering Department requested additional staff, to be paid for via the tax levy (30%) and the Storm Water Utility fee (70%), but funding was limited and an increase in the fee would be required. In the Wastewater Treatment Plant, the

replacement of a long-vacant Operations Supervisor is included, with a reduction in the recently vacated Relief Operator position.

- Agency allocations – For the 2007 proposed budget, Mr. Dankert discussed the different entities that we help fund, noting most of the proposed funding remained unchanged from 2006 to 2007, with the exception of the 4th of July funding, which remained at \$10,000 even though 2006 had an increase in funding due to the Sesquicentennial celebration.
- General Fund – Mr. Dankert discussed the different increases and decreases in the General Fund that are proposed for 2007. Mr. Dankert noted much of the increased tax levy is needed in the General Fund to cover the proposed operational expenses. Mr. Dankert noted LGA increased approximately \$300,000. Additionally utility costs for street lights and the increased cost of oil has mandated increases in these line items. Mosquito spraying for 2007 is also in the budget in the event this is needed.
- Special Revenue Funds – Mr. Dankert briefly discussed the Recreation Programs, Library, Police and Fire PERA funds, and the Economic Development Fund as to the estimated operations for 2007.
- Debt Service Funds – Mr. Dankert noted we still need a \$120,000 transfer from the General Fund to cover the tax increment debt costs. Additionally, in the General Assessment Debt Service Fund we are proposing to call the 1997 Improvement Bonds as we should have adequate cash to prepay them.
- Construction Fund 49 – Mr. Dankert noted most of our construction funds do not have budgets, as they are project length. However, Fund 49 annually pays for projects that are tax levy financed. For example a new warning siren (no specified location yet) is planned, plus an overlay of the Riverside Arena parking lot is scheduled. Council Member-at-Large Christopherson noted this may be a good time to look at geothermal at Riverside Arena as we may be tearing up the parking lot anyway.
- Enterprise Funds – Mr. Dankert discussed the Wastewater Treatment Plant, Waste Transfer Station, Port Authority Funds, and the Storm Water Utility District, noting an attached memo from City Engineer Jon Erichson includes the proposal to increase the fees on many of these utilities.
- Internal Service Funds – Mr. Dankert noted these are internal charges to our departments that get pooled in these funds, to ultimately pay the bills they relate to (insurance, vehicle replacement, etc.). Mr. Dankert also discussed the capital outlay that is proposed for these funds.

Mr. Dankert reviewed the proposed tax levy, number of employees, and the capital outlay for all funds.

Mayor Rietz thanked Mr. Dankert and Mr. Hurm for the balanced budget for 2007. However, Mayor Rietz noted she is getting calls from citizens not approving of the 10% property tax surcharge proposal. Mayor Rietz noted we should stick to promoting the sales tax referendum passage and drop this surcharge. Mayor Rietz stated if the referendum is not approved by the citizens, then maybe we need to re-assess if this is really a priority of the citizens.

Council Member Dick Pacholl stated he has also had phone calls on the issue. Council Member Nordin stated the only real phone calls she has had relate to Mower County's proposed Justice

Center. Council Member Scott Pacholl stated he has a good feeling on the referendum. Council Member Hecimovich stated he has also heard the negative feedback on the property tax surcharge, and the Justice Center is a constant complaint among citizens. Council Member McAlister stated he has always been against the surcharge.

Council Member Baker stated he liked having the property tax surcharge out there, as it is helping to educate the citizens. This should not be viewed as a threat, but Council Member Baker stated he does not have a problem with removing the item from the levy. Council Member Baker stated if the referendum fails, he wouldn't vote for the 10% surcharge to go towards this anyway. Council Member Baker stated he would like to leave the tax levy the same for 2007.

Council Member-at-Large Christopherson stated that he did not want to pay the surcharge either, but we do not have a backup plan. One option is to give the state money back. Council Member-at-Large Christopherson stated it is bothering him that council committed on a 6-1 vote that they were going to fix the problem. Now we "don't want to"? Council Member-at-Large Christopherson stated he thought Council wanted this fixed.

Council Member Baker stated he would like to go back through the budgets and find the \$300,000 to fix it. However, if 80% of the voters vote no on the referendum, then it sends the signal as to what our citizens really think about the flooding issue.

Council Member Scott Pacholl stated the surcharge discussion has served its purpose. It has gotten people to talk about the issue of flooding. Council Member Dick Pacholl stated we have been told to fix this problem. City Administrator Jim Hurm stated we may not want to cut the surcharge now, but may want to see how the referendum is voted on by the citizens. Council Member-at-Large Christopherson stated that he would vote for the 10% surcharge as he is committed one way or another to get the problem fixed. Council Member Scott Pacholl stated if we leave the surcharge on, then the citizens do have a choice, either through a sales tax or a property tax. This gives the citizens their choice, noted Council Member Scott Pacholl.

Mr. Dankert said that at this time there is no back-up plan. We believe we have most of the funding figured out for our share of the Justice Center/Police Department. However, the property tax surcharge would only amount to \$300,000 per year, while the sales tax referendum would amount to over \$700,000 based on state estimates. We would still need to bridge that gap to find another \$400,000 of funding within our operations. Mr. Dankert noted he understands Council has a tough decision here, but Mr. Dankert noted he would not be doing his job if he did not advise Council of the options, or lack thereof, for alternate funding. Mr. Hurm reiterated that the surcharge would only cover part of the cost of the flood mitigation costs.

Council Member Baker stated we should only capture the growth, not an overall rate increase in addition to the growth. Council Member Scott Pacholl agreed noting if we could get away with it in the budget that would be ideal. Council Member Nordin disagreed, noting we are always asking our people to do more with less. If the citizens want the service, they need to pay for it. Council Member Baker stated we should be challenging our staff to do more with less. Mr. Dankert noted if that is the direction Council wants to go, we need to find permanent reductions. Many school districts, for example, used to have (for example) 75% of their costs go towards salary and benefits, and (for example) 25% go for capital and other costs. Nowadays, with the

funding formulas so tight, most of the funding is going to salaries and benefits, with very little going to capital upgrades and other costs. Mr. Dankert noted we always try to maintain a good capital budget in order to ensure proper replacement and expansion of activities within the community.

After further discussion, the following was the vote on the general tax rate increase for 2007:

Council Member-at-Large Christopherson	Leave at 5.09%
Council Member Hecimovich	Leave at 5.09%
Council Member Scott Pacholl	Thin out the budget
Council Member Dick Pacholl	Go with a reduction
Council Member McAlister	Leave at 5.09% (fuel-related increases)
Council Member Nordin	Leave at 5.09%
Council Member Baker	Reduce the 5.09% to 0.00%

Mayor Rietz noted there is four votes right now to leave the tax rate increase at 5.09%.

In regards to the 10% property tax surcharge, Mayor Rietz requested another meeting at the August 28, 2006 special council meeting to discuss the surcharge one more time before it comes to Council on September 5, 2006 for adoption. No objections noted.

Council Member Baker stated he would like to get a summary of the sources and uses for the downtown project that the Port Authority is in the midst of. Mr. Hurm noted he would provide that update.

Council Member-at-Large Christopherson stated he would like to discuss the agency allocations. After further discussion, the following entities had their proposed funding for 2007 reduced:

- Welcome Center – a reduction of \$5,000 (from \$20,000 of funding down to \$15,000 of funding) was approved by all council members except Council Member Nordin.
- 4th of July – a reduction of \$4000 (from \$10,000 of funding to \$6,000 of funding) was approved by all seven council members.

Reductions to other entities were briefly discussed, but not in great detail and with no actual vote as to a reduction.

Council Member Hecimovich stated we should put the \$9,000 of above reductions into the Contingency line item as the increased fuel costs still have him a little uncomfortable with the situation. No objections noted.

With no other items, motion by Council Member Hecimovich, seconded by Council Member Nordin to adjourn the meeting at 8:13 p.m. Carried 7-0.

Respectfully submitted,

Tom Dankert
Director of Administrative Services