

COUNCIL WORK SESSION SEPTEMBER 13, 2021

Pursuant to due call and notice thereof, a Council Work Session of the North Mankato City Council was held in the Council Chambers on September 13, 2021. Mayor Dehen called the meeting to order at 12:00 pm. The following were present for roll call: Council Members Steiner, Norland, Oachs, Mayor Dehen, City Administrator Harrenstein, Finance Director McCann, and City Clerk Van Genderen. Absent: Council Member Whitlock.

Receive and Discuss 2022 Tax History & Distribution Background and Relevant Strategic Plans.

City Administrator Harrenstein reported a lot was going on in the growing community of North Mankato. The Council would need to make some decisions concerning Federal Funding. He noted the maximum Levy would be adopted at the September 20, 2021, Council Meeting. Council Member Steiner confirmed that the Levy could be reduced before final passage, but Council could not raise the tax levy.

Finance Director McCann reported the taxable market value (TMV) of the community is estimated at nearly \$1.3 billion for 2022, which is a \$50 million increase between 2021 and 2022 in new growth. The total city tax capacity increased by an estimated \$594,045 between 2021 and 2022.

The 2022 tax levy is estimated at \$7.12 million, a 2.0% increase and amounts to approximately \$140,000 in new operating revenue for the City. \$82,000 in income is allocated to the General fund for 2022, and \$57,000 is dedicated to the debt service fund. The value of the community increased by 4.02%, and new construction makes up 1.3% of that increase. The estimated tax rate is 47.897%, a 0.93 percentage point reduction from 2021. Finance Director McCann reviewed the tax classifications and noted that residential parcels makeup 75% of total City parcels and pay 59% of all city tax amounts. Commercial and industrial properties make up 5% of total City parcels and contribute 27% of the City tax levy. The average North Mankato homeowner pays roughly \$1,000 in city taxes. North Mankato ranks in the upper third for TMV, the middle third for Levy, and the bottom third for city tax rates compared to similarly-sized cities.

Finance Director McCann reported the City of North Mankato contains 5,256 parcels with a population of 14,275. The TMV for 2022 is \$1,294,389,316 which is a 4% increase from 2021 with 1.3% of the increase is new growth. The total Net Tax Capacity (NTC) is \$15,354,807. NTC is determined by multiplying the taxable market value of the property by the statutory percentage rates. In 2021 the North Mankato tax levy was \$7.0 million, just 48% of the NTC. The city tax rate in 2021 was 48.83% which was down from 54.56% in 2013. The staff proposed 2022 city tax rate is estimated at 47.897%.

Finance Director McCann reviewed the five tax classifications. Residential and homestead, which averages \$1,033 in City tax payment, makes up 59% of city taxes. Agricultural parcels are averaging \$907.00 in City tax payments or 1% of city taxes. Commercial and industrial parcels are averaging \$7,074 per parcel, making up 27% of total city taxes. Rental and non-homestead parcels average \$1,386 per parcel and make up 15% of city taxes.

Finance Director McCann reviewed the 2022 proposed Levy of \$7,122,995, a 2% increase from 2021. Comparing 2021 tax levies with comparable cities has North Mankato in the middle. The City Tax Rate for 2022 is recommended at 47.897%. In 2014 the tax levy was 54.01% and had steadily decreased over the years.

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Finance Director McCann reviewed the historical property and tax values looking at several homes, commercial and residential buildings and how the proposed tax rate would impact the taxes of the individual parcels dependent upon the increase or decrease of valuation from the County.

City Administrator Harrenstein reported that all of the strategic plans and development plans, and policies that the Council has passed are considered during the budgeting process. He noted that the City's 2015 Strategic Plan and 2017 Strategic Plan had guided the City's budgeting process. In 2021, the City and Council began preparations for the 2022-2026 Strategic Plan. He reported several changes to the plan's format, including the establishment of a mission statement and some changes to five values. The Mission statement states: "Deliver citizens a clean and safe community through responsive, financially sound municipal services that balance resources and responsibilities to maintain public infrastructure, pursue economic development, communicate with the public, manage future growth, and fulfill public trust." Changes to the five values include adding the underlined words:

Adaptability: The ability to innovate and adjust means and methods to resolve to change situations.

Excellence: Going above and beyond expectations.

Responsibility: Taking initiative, ownership, and being accountable for performance.

Integrity: Being honest, impartial, and aligning actions with principles.

Leadership: Achieving a common goal through empathy and by motivating others.

City Administrator Harrenstein commented that an additional change was bridging the specific goals and bringing those goals to the next level. Mayor Dehen requested the Council has the opportunity to review the plan during a Council Work Session.

Receive and Discuss Proposed 2022 Tax Levy Funds; General Fund, Port Authority, and Debt Service Funds.

Finance Director McCann reviewed the Budget Process, including Citywide strategic planning through a five-year financial projection, citizen and stakeholder engagement and analysis, budget reserve and debt policies, economic indicators, property tax collection, and state funding and advisory groups, aligning the strategic planning with department business planning, including city goals and expectations and financial policy direction. The annual budget and five-year CIP include the departments' missions and goals, financial policy direction, service activities, performance measures, finance plans, workforce technology, and facilities. Everything is brought back to ensure that department budgets align with city Goals, financial policy direction, and department missions and goals.

Finance Director McCann reviewed the organizational structure. Mayor Dehen commented that it might be essential to consider reorganizing the organizational chart to reflect the developing cultural and recreation actions the City has become involved in. He suggested moving the Library Director to a quality of life department encompassing the pool, hockey rinks, softball, soccer, and football. He suggested working with Minnesota State University, Mankato, to find sports management interns to assist with the growing department. City Administrator Harrenstein stated staff would work on creating and reorganizing the organizational chart to recognize the developing Culture and Recreation Department.

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Finance Director McCann reviewed the City's staffing history, which had gone from 63.50 Full-Time Equivalents in 2012 to 57.75 in 2016 and is currently proposed at 61 for 2022. The increase includes changing the Aquatics Programming Director to a full-time position to assist the culture and recreation department. The City also hired a full-time Youth Sports Coordinator for the football program. City Administrator Harrenstein commented that sponsorships and registrations completely fund the Youth Sports Coordinator position. The current employee is aware that the salary depends on those elements, which makes the youth football program self-sustaining. City Administrator Harrenstein reported the aquatics position would be moving to a full-time job to assist with tennis, golf, baseball, pool, and soccer program management. The Police Department currently has a vacancy that is in the process of being filled.

Finance Director McCann reported a 10% decrease in Health Insurance costs. City Administrator Harrenstein said South Central Cooperative bid out the health insurance, and Medica won the bid and guaranteed a stabilized rate for the next three years.

Council Member Norland commented that she was amazed that with the growth of the City and the additional work, the City has not increased its staff and recommended that staffing increases be considered. City Administrator Harrenstein commented that the recommendation would be taken under consideration and was considered in conjunction with capital.

Finance Director McCann reviewed the General Fund Revenues proposed in 2022 are \$9,421,580, a decrease of \$136,717. The reduction is a result of moving the swim operations to a swimming facility special revenue fund. Other significant reductions are due to reductions in permits, interest-earning, fines, and other miscellaneous items. The Port Authority General Fund revenues totaled \$94,788 with \$75,000 in property tax support. The remainder relates to TIF administrative fees and loan repayments. The Debt Service Fund Revenues are \$2,973,314 with a tax levy of \$1,747,420, and the remainder is comprised of sales tax, special assessments, state aid, and TIF payments.

The total outstanding projected debt for 2022 is \$35,866,200. The 2022 budget includes a proposed debt issuance of \$3.5 million.

Finance Director McCann reviewed the General Fund Revenues, which included a reduction in Sales Tax due to moving the Swim Facility to a new fund, and an increase of \$12,000 in Franchise Tax due to new connections.

City Administrator Harrenstein commented that the increase reflected an increase in water and sewer connections.

Finance Director McCann reported a projected decrease in license and permit fees and an increase in building permit fees. The main decline is due to moving the pool and concession fees to a new fund upon the recommendation of the auditors and Council direction. The adopted 2021 Budget had total revenue of \$9,558,297, while the proposed 2022 revenue is \$9,421,580.

Finance Director McCann reviewed the General Fund Expenditures. The 2021 adopted expenditures was \$9,459,520 and the 2022 proposed budget is \$9,413,912 or a decrease of \$45,608. Decreases included moving the Mankato Flood station payments from the General Fund to the Storm Fund. Increases include an additional \$100,580 to the Parks Fund, bringing funding back to pre-COVID-19 levels.

City Administrator Harrenstein reported that the budget includes transfers out to Caswell Park to cover operation costs for the proposed Caswell Indoor Recreation Center when looking at the outlying year expenditures. So when the structure is built, the City is already planning for the potential outlay to maintain the facility.

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City Administrator Harrenstein directed Council to page 44 of the document to review Miscellaneous Funds and Transfers Out. He noted a decrease in firework expenses due to not anticipating fireworks for Fun Days in 2022 and an increase of \$50,000 in Transfers to the Capital Facilities Fund to restore it to pre-Covid levels in the Transfers out. He also noted the stable amount being transferred to the Caswell Sports Fund of \$77,000. A discussion was held on ways to make Caswell Park cash flow.

City Administrator Harrenstein reviewed the Area Agency Disbursements, including regular contributions made to groups or organizations in the community or that the City is a member of. It includes payments for contracts, services, and transit. It was noted that the Mankato Flood Station Control was moved to the General Fund from the Storm Water Fund and decreased by \$55,000. The City Center Partnership-Art Sculpture Walk was transferred to the Port Authority Fund. Mayor Dehen commented that he would be interested in working with the Twin Rivers Center for the Arts to pursue an RFP to paint the flood wall.

A review of the Port Authority Fund General Fund included \$94,788 in revenues, an increase of approximately \$2,700, primarily from TIF Administrative Fees. Port expenditures are anticipated at \$93,989. Mayor Dehen requested clarification on when the 429 Belgrade Avenue TIF district would be completed. Council Member Oachs asked for clarification on what will happen with the 264 TIF District as the bank has been built, but the restaurant has not been completed. City administrator Harrenstein reported the TIF District was created so the developer will not receive any benefits unless the entire project is completed. Mayor Dehen commented the developer is still working to see if he can complete the project.

Finance Director McCann reviewed the Debt Service Fund. Which included the new debt accrued in 2021 of \$11,335,000, increasing the total debt to \$35,120,300. In 2022 the City is anticipating bonding for an additional \$3.5 million. Mayor Dehen requested the addition to the chart of the \$4.5 million for the hotel. City Administrator Harrenstein suggested decreased bonding to \$1 million in 2023 and 2024 due to a projected decrease in the cash reserves below where staff would be comfortable. The reserve would still be within policy guidelines but lower than staff would necessarily be comfortable with. Mayor Dehen commented that the City had done an excellent job of managing spending, allowing the Tax Levy's decrease.

Finance Director McCann presented four preliminary tax levy options, which included capturing only the new growth for an increase of 1.27% or \$88,688, the recommended 2% or \$139,667 increase, a 2.5% increase or \$174,583, and a flat tax rate which would be a 3.98% increase of \$277,957. A discussion was held that the Council would set the preliminary tax rate at the next Council Meeting, and the Council could decrease the Levy but not increase. Mayor Dehen suggested the preliminary rate be set at the flat rate to allow continued budget discussion and when the final levy is set it could be decreased.

Council Member Norland moved, seconded by Council Member Oachs, to adjourn the Council Work Session at 1:54 pm.

Mayor

City Clerk