

UNAPPROVED

Minnetonka Beach Finance Commission Meeting Minutes

April 28, 2020

1. Call to Order

Chair Zinn called the meeting to order at 6:03 p.m.

Present: Chair Zinn, Commissioners Bender, Skelton, Dudley, Suiter, Woerner and Council Liaison Myers.

Staff in attendance: Jaci Lindstrom, Mayor, Patrick Melvin, City Administrator.

2. Oath of Office- John Woerner

John Woerner took the oath of office and was welcomed as the newest member of the Finance Commission.

3. Approval of Agenda

(Davida motion, Skelton second to approve the agenda as written, all ayes). Motion passed.

4. Approval of Minutes of October 2, 2019.

(Woerner motion, Bender second to approve the October 2, 2019 Minutes, all ayes). Motion passed.

5. New Business

5.1 Ehler's 2020 Financial Management Plan

Chair Zinn shared that for about a year and half the City has been working with Ehler's and a Financial Management Plan (FMP) for Minnetonka Beach. The FMP is a comprehensive financial plan for all different fund accounts and taken into account the City's current and future debt. The FMP was used when the City increased water fees for the proposed water tower. The FMP is now being used as a long-range planning tool to evaluate future financial implications of funding projects such as the 4 inch water main replacement and street projects.

The value of Minnetonka Beach properties are estimated at 4.3 million for 2020 and the City taxes those properties a certain percentage. Some rural cities actually tax over 100% of capacity. Minnetonka Beach taxes at a rate of 24% and neighboring communities such as Excelsior tax are at 27%, Shorewood 28.5%, Spring Park 32.%, Minnetonka 34.5% and Mound 41.1%. Minnetonka Beach tax rate compares favorably to all these.

The average Minnetonka Beach home is estimated at \$1.274 million in value for 2020 and tax for 2020 on such a home is at \$3,082. The City levies a dollar amount not a percentage. The FMP makes assumptions and projections on how much the tax levy will increase each year, but it is not detrimentally impacted by the property values, meaning the City adds each year to the levy as expenses increase but does not run the risk of losing revenue in case of a decrease in market values.

A Commissioner inquired as to who defines the tax base and was informed by Zinn that it is provided to the City as a cumulative tax assessed value.

Chair Zinn reviewed the spreadsheet with attention to line 25 which is capital improvement and pointed out that in 2016 and 2017 the Capital Improvement Plan (CIP) cost was under \$100,000 and that he and the Council have talked and that they would like to keep it at a consistent \$150,000. Line 30-40 of the spreadsheet shows the debt service which includes the existing 2012A and 2019A Bonds, the proposed \$1.3 million in 2020 for tower, the proposed \$4.2 million for 4' water main and an additional \$2.5 million in 2025 and again in 2027 for street projects.

He pointed out that the General fund is financing 80% of the 2012 and 2019 bonds and is not scheduled to fund any of the water tower costs. The water tower will be financed 100% from by water revenues which was made possible by the recent increase in water fees. Line 50 show the tax levy going forward. The City tax would go from \$3,082 in 2020 on the average home in Minnetonka Beach to \$5,792 in 2030 to fund the 4 inch water main and street improvement projects, approximately \$9.2 million all together in projects costs.

Chair Zinn asked for feedback from the Commissioners? What should be the space between issuance or should projects be lumped together to get better rates?

Mayor Lindstrom spoke up to share with the Finance Commission that it is common to have water revenues to pay for water related projects. The City of Minnetonka Beach compared water rates with 14 neighbors and found Minnetonka Beach was under charging for water.

Commissioner Woerner inquired do the debt numbers just cover principle or principle plus interest and Zinn responded both principle and interest. Commissioner Woerner also inquired will future water rates cover the four-inch water main project as well?

The City had to increase water rates 42% to get us to where we are at today with water rates. Water might cover part of future projects, but not all. Lafayette Ridge for example, recently received a water increase from Orono because these fees are being used to fund projects.

Chair Zinn shared with the Commission that he does not want to present double digit increases as he does not feel that it is what citizens want. Other Commissioners agreed and suggested the City pursue smaller increases and work to generate reserves in the off years to apply towards projects and minimize spikes in increases.

A question was raised by Commissioner Suiter about the City's reserves and should that be paying for more expenses. Commissioner Zinn responded that the City needs to maintain those at a certain level. The City would not be detrimentally impacted if the City were to tap into reserves.

Commissioner Woerner made the Commission aware of some funding opportunities that may be coming up to assist with funding infrastructure during COVID 19. Mayor Lindstrom informed the Commission about the City's recent submittal to the state for funding to assist with updating the water treatment facility and replacement of the 4 inch water mains. Commissioners were pleased to hear that the City was positioned to take advantage of these potential funding sources.

Commissioner Woerner felt that having a three-year space between projects was more effective in trying build up the reserves and smooth out the levy increase verses the two-year interval as shown on

the spreadsheet. The Commission agreed the water tower was more critical and justified moving ahead now.

Chair Zinn asked for a motion to review the FMP twice a year, every six months.

(Woerner motion, Skelton second to review FMP twice a year and at the next meeting model out the levy increase in subsequent years to build reserves to be used for future infrastructure projects, all ayes). Motion passed.

Council Liaison Myers inquired what is the commitment to Ehlers for the FMP? Zinn responded it is an hourly rate and the City can set the cap. Ehlers will be at May 11 Council meeting and it was suggested that further inquiry as to cost be made there.

5.2 Municipal Bond Issuance Considerations

Zinn advised the Commission that the Council approved Stantec to get bids which will be presented to Council on May 11. Ehlers will be participating in this Council meeting. One scenario Zinn laid out was that the bids come in and Council selects a contractor and authorizes Ehlers to proceed with water bonds. Historically Minnetonka Beach has had referendums but in this case the expense is fully funded by water revenues therefore a referendum is not required, however the Council will be having a public hearing to inform and answer questions from the public.

MN Statute 444 allows water funds to have the backing of the general fund, however the City is committed to water fees paying for the debt. Minnetonka Beach will not use the General Fund however financing through MN Statute 444 benefits the City by securing a better interest rate.

Municipal bonds have been all over the place according to Ehlers. The market has been volatile and now the market is at a 20 year low. Based on that Ehlers has put together a debt service schedule. The City could issue a \$1.3 million bond at very low and very competitive cost.

If Council recommends moving ahead with the bid, Ehlers will do pre-sale report at the May 11 Council meeting and two weeks after that the City will have a due diligence call. Chris Zinn and the Mayor will release a statement that will go to rating agencies, have a conference call with S & P two weeks later and then Ehlers will participate in the June Council meeting and have firm numbers to award the sale in June. The funding would be available 4-6 weeks later putting around the 2nd week of July. Stantec has indicated first payment may match up closely with this date.

There are two items that Chair Zinn recommends, first issuing a 20 year bond, not 30 year bond or 15 year bond and secondly, not using reserves since the City has increased the water fees and it will cover the financing of the water tower.

Commissioner Suiter thought there was some excess reserves that were earmarked for the water tower and she thought they should be used so as not to be prevented from being used in other projects. Council Liaison Myers thought that \$300,000 might have already been moved to another project. Chair Zinn indicated that he would like further into this.

(Suiter motion, Skelton second to recommend the Council engage with Ehlers to begin the process to issue a 20 year \$1.3 million dollar bond if the Council approves or selects a bid to complete the water tower project, all ayes) Motion passed.

In closing, Chair Zinn and Mayor Lindstrom reminded the Commission that the City is working on the Capital Improvement Plan (CIP) which this year will be a ten-year plan. The plan is to be in that \$150,000 price range for capital projects.

6. Adjournment

(Skelton motion, Suiter second to adjourn the meeting at 7:11 p.m.) Motion passed.

Minutes respectfully submitted by City Administrator Patrick Melvin.

Patrick Melvin, City Administrator