



CITY COUNCIL WORK SESSION AGENDA

AFTON CITY COUNCIL CHAMBERS

3033 St. Croix Trail South

Thursday, September 13, 2018

At 5:30 p.m.

- 1. CALL TO ORDER**
- 2. ROLL CALL**
- 3. APPROVAL OF AGENDA – September 13, 2018 City Council Work Session**
- 4. CITY COUNCIL BUSINESS**
 - A. Downtown Village Improvement Project Financial Update
 - B. 2019 Preliminary Budget
- 5. ADJOURN**

A quorum of the City Council or Other Commissions may be present to receive information at, but not limited to, any of the following meetings: Planning Commission; the Public Works Committee; Parks Committee; Design Review and Heritage Preservation Commission; Lower St. Croix Cable Commission; LSCWMO; MSCWMO; I-94 Corridor Coalition and the 5-City Mayor's Alliance.

City of Afton
3033 St. Croix Trl, P.O. Box 219
Afton, MN 55001

Meeting Date Sept. 13, 2018

Council Memo

To: Mayor Bend and Members of the City Council
From: Ron Moorse, City Administrator
Date: September 6, 2018
Re: Downtown Village Improvement Project Financial Update

At its August 27, 2018 work session, the Council discussed the financial status of the Downtown Village Improvement Project. While it appeared in September of 2017 that additional funding from the DNR would be sufficient to complete the Project, subsequent revenue and expenditure projections had indicated there was a projected funding gap of approximately \$300,000 for the project. Most recently, as the City Accountant reviewed his actual expenditure information in relation to the City Engineer's funding projections, it appeared the funding gap was larger than projected. The City Engineer is in the process of reviewing the Accountant's expenditure information to determine the extent of the funding gap. He will provide the results of his review for discussion at the September 13 Council work session.

Pay-Off of Temporary Bonds

There are \$1.9 million of temporary bonds outstanding that have been used to provide cash flow for the Downtown Project. The temporary bonds need to be paid off in 2020. The funding projections for the Downtown Project include the pay-off of the temporary bonds. If the funding gap for the Downtown Project is larger than anticipated, the funding gap could be addressed by using a longer term bond issue to pay off a portion of the temporary bonds.

Funding Sources to Address a Funding Gap

In 2016, a \$70,000 debt service levy was initiated in anticipation of the possible need for supplemental funding in addition to the special assessment funding to pay the debt service on the Public Facilities Authority (PFA) low interest loans, or for the possible need to address a funding gap for the Downtown Project. It now appears that the special assessment revenues to be received are sufficient to pay the PFA loan debt service, which could enable the levy to be used to address a funding gap for the Downtown Project. In addition, there is a \$30,000 levy in place to pay the interest on the temporary bonds that are being used to provide cash flow for the project. If a longer term bond issue is necessary to pay off the temporary bonds, both the \$70,000 levy and the \$30,000 levy would be available to pay the debt service on the bond issue.

In addition, the City will receive \$50,000 per year for the next eight years from the Valley Branch Watershed District as the annual payments remaining on the \$500,000 grant. The ten-year \$95,000 levy mentioned above will also continue for three more years. These revenues would also be available to pay the debt service on a bond issue.

City of Afton
3033 St. Croix Trl, P.O. Box 219
Afton, MN 55001

Meeting Date August 27, 2018

Council Memo

To: Mayor Bend and Members of the City Council
From: Ron Mourse, City Administrator
Date: September 6, 2018
Re: 2019 Preliminary Budget

The Council had its initial discussion of the 2019 Preliminary Budget at its August 27 work session. The discussion included both the General Fund operating expenditures, which involve the day-to-day operations of the City, and capital expenditures including street improvements, bridge improvements and the Downtown Improvement Project. The 2019 Preliminary Budget Overview is attached.

General Fund

A specific topic discussed at the work session was the Police Services cost increase from the Sheriff and the \$5,000 line-item for extra patrols for speed enforcement. The Council discussed eliminating or reducing the amount budgeted for the extra patrols to offset the additional cost for Police Services. The Council directed staff to determine how much of the \$5,000 line-item was spent in 2018 and when the extra patrols were provided. Staff requested this information from the Sheriff's Office but had not received it at the time of this memo. The information will be provided as soon as it is received.

Capital Expenditures

Downtown Improvement Project

The main topic of discussion regarding capital expenditures at the August 27 work session was the extent of the funding gap for the Downtown Improvement Project. The extent of the funding gap will be clarified by the City Engineer as part of the first agenda item of the September 13 work session.

River Road Sewer Line Replacements

The current "201" sewer system that serves approximately 12 properties on River Road involves septic tanks on each property to separate the solids from the liquids, and the liquids then flow into sewer lines on River Road. The sewer lines are 2-inch force main lines and 4-inch gravity lines. These work well for liquids, but not for solids. In order for the River Road properties to be able to abandon their septic tanks, the force main lines need to be replaced with 4 inch lines and the gravity lines need to be replaced with 8 inch lines. An important factor in the cost of the replacement of these lines is whether the new lines can be installed by directional drilling vs. open-cut excavation. While WSB completed soil borings that show the soils would allow directional drilling, the grade tolerance required for the new sewer lines to connect with the existing sewer stubs is too small to allow directional drilling. This would require open cut excavation which would result in a complete reconstruction of River Road. This would be very costly. Another option would be to wait on the sewer line replacements until River Road is in need of a full reconstruction.

Certification of Preliminary Tax Levy to the County

The preliminary tax levy needs to be certified to the County by September 30. Once certified, the preliminary tax levy can be reduced but not increased. The preliminary levy could be adopted at the September 18 regular Council meeting. If the Council needs another opportunity to review the budget information prior to adopting the preliminary budget, a Special Council meeting could be scheduled.

City of Afton 2019 Preliminary Budget Overview

The following is an overview of the City of Afton preliminary 2019 budget. The preliminary 2019 budget reflects an on-going effort to provide sufficient funding to meet current and long term capital improvement needs including street improvements and bridge improvements, as well as to absorb increased costs for fire and police services, while managing the impact on the tax levy.

General Fund Budget

The General Fund Budget includes expenditures and revenues related to the general day-to-day operation of the City.

General Fund Expenditure Highlights

The preliminary 2019 General Fund expenditures are \$1,303,476. This is an increase of \$59,586 or 4.8% from the 2018 budget.

An outline of the key items affecting the General Fund expenditures is as follows:

- Wages and Benefits are up \$30,425 or 11.1% due to reclassification of the Office Assistant and Public Works Supervisor positions to higher pay ranges and the higher pay range for the City Clerk, as well as a 2.4% increase for the City Administrator salary. The Maintenance Personnel wages increase also includes a \$4,000 increase for additional seasonal staff time related to additional infrastructure maintenance and the increased workload of the Public Works Supervisor related to sanitary sewer system operations including expected increased customer service workload.
- Fire and ambulance service expense is up \$11,130 or 4.5%
- Police Service expense is up \$ 9,011 or 5.0% due to a Sheriff's Department budgeting change to avoid actual costs exceeding the cost estimate provided.
- The budget continues to include \$5,000 for additional police patrol for speed and noise enforcement
- The Brush/tree/mow/bridge/culvert/guardrail line-item under Streets is up \$5,000 or 10% to reflect the growing need for tree and brush trimming along roads.
- The Street Light expense line-item has been reduced from \$12,000 to \$5,500 to reflect actual electricity costs.

General Fund Revenue Highlights

- All revenues are generally flat. While actual Building Permit revenue is higher than the amount budgeted, the City has been budgeting these revenues conservatively.

Tax Levies and Transfers

Capital Improvement Levies

- Street Improvement Levy

The total 2018 levy for street improvements (\$460,000) (see below for detail) is being increased by \$50,500 or 11% as called for by the long term street improvement funding plan. This increase is reflected in the 2019 preliminary Street Improvement Capital Fund levy being increased from \$70,000 to \$120,500.

2018 Street Improvement Capital Fund levy	\$70,000
plus 2017 Road Bond debt service levy	<u>\$390,000</u>
Total 2018 levy for street improvements	\$460,000

- The Bridge Replacement Fund Levy remains at \$50,000

Debt Service Levies

- The debt service levy for the 2014 Road Bonds is up \$15,000 or 5.8% to reflect the amortization schedule with increasing payments.

General Fund Levy

- The preliminary 2019 General Fund tax levy is \$1,067,503. This is an increase of \$60,436 or 6.0% over the 2018 General Fund levy.

Total Tax Levy

- The preliminary 2019 budget results in a total tax levy, including the General Fund levy and the debt service and transfer levies, of \$2,255,391. This is an increase of \$121,605, or 5.70% over the total 2018 levy

Street and Bridge Improvements Planning

Streets

Because the 2017 Pavement Management Project completed 16.9 miles of street improvements, there are 7.5 miles of streets remaining to be improved. These remaining streets are planned to be completed in the next 3-5 years. To provide sufficient funding for the completion of the 7.5 miles of improvements, the long term street improvement funding plan calls for a levy increase of \$55,000 in 2019.

Bridges

The City's bridges are periodically inspected regarding the need for repair or replacement. At this time, one of the bridges is in poor condition and should be replaced in the near future. Because this bridge can be replaced by a large culvert, the replacement cost is substantially lower than the cost of a bridge. The City Engineer is preparing a cost estimate for the replacement of this bridge. The other bridges are in good condition, and a timeline for replacement of these bridges has not been determined. In 2018, the Council authorized a levy of 49,671 for bridge and other infrastructure replacement, as a first step in providing sufficient funding for bridge replacement needs. The 2019 preliminary budget continues this levy in the amount of \$50,000.

Downtown Village Improvement Project

The Downtown Village Improvement Project is substantially complete and will soon be fully complete. As past revenue and expenditure projections have indicated, there is a funding gap for the project. The City Engineer, the City Accountant are in the process of clarifying the funding gap based on the most updated project costs and revenues. The project costs include the sewer lines that were installed to serve the Pennington Avenue properties and could also include the costs of replacing the River Road Sewer lines (see below). In 2016, a \$70,000 debt service levy was initiated in anticipation of the possible need for funding, in addition to the special assessments, to pay the debt service on the

Public Facilities Authority (PFA) low interest loans, or for the possible need to address a funding gap for the Downtown Project. It now appears that the assessments to be received are sufficient to pay the PFA loan debt service, which could enable the levy to be used to address a funding gap for the Downtown Project.

River Road Sewer Line Replacements

The current "201" sewer system that serves approximately 12 properties on River Road involves septic tanks on each property to separate the solids from the liquids, and the liquids then flow into sewer lines on River Road. The sewer lines are 2-inch force main lines and 4-inch gravity lines. These work well for liquids, but not for solids. In order for the River Road properties to be able to abandon their septic tanks, the force main lines need to be replaced with 4 inch lines and the gravity lines need to be replaced with 8 inch lines. An important factor in the cost of the replacement of these lines is whether the new lines can be installed by directional drilling vs. open-cut excavation. WSB has completed soil borings that show the soils would allow directional drilling. A second factor is whether the culverts along River Road would be in the way of the directional drilling. WSB is in the process of looking into this. They will then be able to provide a cost estimate for the sewer line replacements.

Sanitary Sewer Budget and Tax Levy

The 2019 Preliminary Budget spreadsheet includes a separate operating budget for the Sanitary Sewer operation to account for the operating costs of the wastewater collection and treatment system, particularly the costs of the wastewater treatment facility, as well as the revenues necessary to fund the operating costs.

Because a large percentage of properties are not required to immediately hook-up to the sanitary sewer system, it appears the actual sewer fee revenues will not be sufficient to cover the actual sewer operating expenses. The 2018 budget included a levy of \$15,000 as a possible supplementary funding source for the operating costs if the sewer fee revenue was not sufficient to cover the costs. This levy is continued in the 2019 preliminary sanitary sewer budget.