

CITY OF MENDOTA HEIGHTS
DAKOTA COUNTY
STATE OF MINNESOTA

Minutes of the City Council Work Session
Tuesday, June 6, 2023

CALL TO ORDER

Mayor Levine called the work session to order at 4:32 p.m. Councilmembers Lorberbaum, Mazzitello and Paper were present. Councilmember Miller arrived late.

Staff in attendance included City Administrator Cheryl Jacobson, Public Works Director Ryan Ruzek, Assistant City Administrator Kelly Torkelson, Finance Director Kristen Schabacker, Park and Recreation Manager Meredith Lawrence, Natural Resource Coordinator Krista Spreiter and City Clerk Christine Lusian.

Also present Parks and Recreation Commission Chair Jaffray Blanks, Natural Resources Commissioner Will Stein, Park and Recreation Commissioner Jo Shifsky, City Attorney Elliott Knetsch, Municipal Advisor Stacie Kvilvang with Ehlers, Senior Financial Specialist Dan Tienter with Ehlers, Paul Dzubnar with Copperfield Restaurant.

FINANCIAL MANAGEMENT
FUNDING CITY OPERATIONS AND INFRASTRUCTURE

Stacie Kvilvang and Dan Tienter with Ehlers presented an overview of public funding options that the city council could consider. As a public agency, the city is bound by the options available for public funding. The presentation by Ehlers was a review of those options that are legally available to the city council with the goal of identifying if the city council was interested in having staff explore additional recommendations for public funding from any of the options available.

Dan Tienter reviewed the benefit of budget plans and capital improvement plans to help the city council plan for funding projects and initiatives responsibly. He noted that these plans were not binding and that the only action that would be binding for a city council would be to issue debt.

Councilor Mazzitello noted that even after the budget is approved, the city council would still have to approve the procurement of budgetary items.

Dan Tienter reviewed how the capital planning process allows city councils to identify their funding priorities and to reflect their values within the financial planning documents of the city. In addition, this type of planning allows the city to make strategic adjustments to projects that balance the many priorities of the city.

Mayor Levine noted that the levy increase sometimes is not an accurate reflection of the financial impact on residents and that the impact is better understood by looking at the increase to the median home value property taxes.

Dan Tienter reviewed the city's current fund balance which is higher than is legally required. He noted that the higher fund balance contributes towards the city having a AAA bond rating and to the city receiving better rates when it borrows funds. The property tax levy and the allocation to public safety in Mendota Heights is typical of many cities.

Councilor Lorberbaum asked what fines the city collects. City Attorney Elliot Knetsch responded that the city gets a distribution from traffic fines.

Mayor Levine noted that the fire department's equipment is funded with the general fund which distorts the funding for the fire department on the funding distribution graph.

Councilor Mazzitello noted that public works operates similarly in that a lot of their equipment is funded through the capital improvement plan and the general fund. Dan Tienter noted that this makes it so that these funds show up some years and not in others; either way, the capital improvement plan helps the city council anticipate and consider potential expenses.

Stacie Kvilvang reviewed Minnesota's property tax system, noting it is one of the most complicated in the nation. Mayor Levine noted that even if the city increases the levy, but the tax base expands more than the increase, that it would function to actually decrease resident taxes.

Stacie Kvilvang discussed how different funding mechanisms impact residents. If a city taxes to build their fund balance in preparation for a project, then the people who are paying for the service might move out of the community before it is purchased or implemented for their benefit. By issuing debt, a city would be able to provide a service to the residents utilizing the resource or service that was purchased.

Another funding mechanism is a referendum, which is when the voters decide what the city is going to do. Kvilvang noted that a city should be careful about what initiatives it delegates to a referendum vote. For example, a city should not put maintenance to a referendum vote, if the vote was against funding the maintenance, it would not be responsible of the city to defer that maintenance.

Stacie Kvilvang reviewed utility franchise fees and noted that they can either be assigned as a flat rate or as a percentage. These funds are collected monthly through utility bills and can fund a wide variety of initiatives including general operations. She noted that many surrounding cities utilize franchise fees to fund initiatives.

Kvilvang noted that a flat fee is easier to collect and easier to predict the amount of funding that would be received. She explained that a percentage fee can be set and the council would not have to review it again unless it wanted to change the percentage. A flat rate might be re-evaluated after several years.

Mayor Levine noted that her first instinct was that a franchise fee felt like an exchange for property taxes and that it was just shifting the funds from one place to another. She asked how it would impact the schools and churches that currently do not pay property taxes.

Kvilvang said that those organizations are getting the benefit of the services that the city is providing, including access to the right of way for the utilities used to provide its own services. She also noted that council can set a different rate for different types of properties such as school, industrial and residential properties.

Councilor Mazzitello noted that the City of Richfield uses franchise fees to fund their road projects and they do not assess their streets. Cities can use franchise fees to free up funds in their property tax levy in order to fund other areas. City Administrator Jacobson noted that the City of Eagan recently adopted a franchise fee to fund their sustainability initiatives.

Commissioner Blanks asked why the city has not already implemented franchise fees. City Administrator Jacobson noted that the past council had decided not to move forward with utility franchise fees. The city does currently have a cable franchise fee.

City Administrator Jacobson noted that staff is looking for direction from the city council regarding interest in staff continuing their research to identify any recommendations pertaining to franchise fees or the other funding mechanism that were being reviewed during the work session. If the council is interested, staff will do additional work to develop a better picture for the city council of what franchise fees might look like and be used for in Mendota Heights specifically. This discussion is preliminary in reviewing the options that the city has legal authority to leverage in order to generate public funding.

Councilor Paper asked how we would explain to taxpayers that the city was adding this fee now when we have not used it in the past. Dan Tienter responded that the city would be diversifying its revenue which makes the public funding mechanisms more resilient to unforeseen changes.

Councilor Paper asked how much notice taxpayers would get about the new fee. Dan Tienter said that would be at the discretion of the city council and would be a part of the discussion of how the city wanted to set up the fee.

Councilor Mazzitello stated that some cities highlight the conservation angle that introducing a franchise fee can have. The less energy people use, the less they pay. Commissioner Stein noted that his understanding was that cities used the funds for a specific initiative and that if there was interest in the community to support that initiative, then they would also support the fee.

City Administrator Jacobson introduced the discussion on charitable gambling. The last time the city discussed charitable gambling was in 2019 and the city council decided at that time not to move forward with it. The owner of the Copperfield Restaurant was in the audience, and staff have also connected with the owners of Tommy Chicago's. Both businesses have expressed support for the city adopting charitable gambling as they believe it would improve sales at their businesses. The city impact would be 10% of the net proceeds derived from the charitable gambling. The businesses, not the city, would select the non-profit organization that they would partner with in conducting charitable gambling activities.

The Copperfield Restaurant owner spoke in favor of adding charitable gambling, noting that his other restaurants that were in cities that had adopted charitable gambling saw a direct increase in the amount that people were spending at the restaurant. He noted that pull tabs did not necessarily attract more people, but that consumers stay longer when they were gambling than if they did not have the option. In addition, he noted that the people who want to do that will go where they can do it, so by not having it in Mendota Heights, the council is just directing those customers to businesses in neighboring communities rather than supporting Mendota Heights businesses.

Ehlers presented information on Local Lodging Taxes which can be used to market the city or fund a city convention and visitors bureau.

Stacie Kvilvang introduced the conversation on the Local Option Sales Tax. She noted that when the specific project is over then you have to submit for another sales tax. The Council agreed that they were not interested in pursuing a Local Option Sales Tax.

City Administrator Cheryl Jacobson confirmed with the city council that staff should proceed with investigating the details for implementation of utility franchise fees, charitable gambling and a city lodging tax.

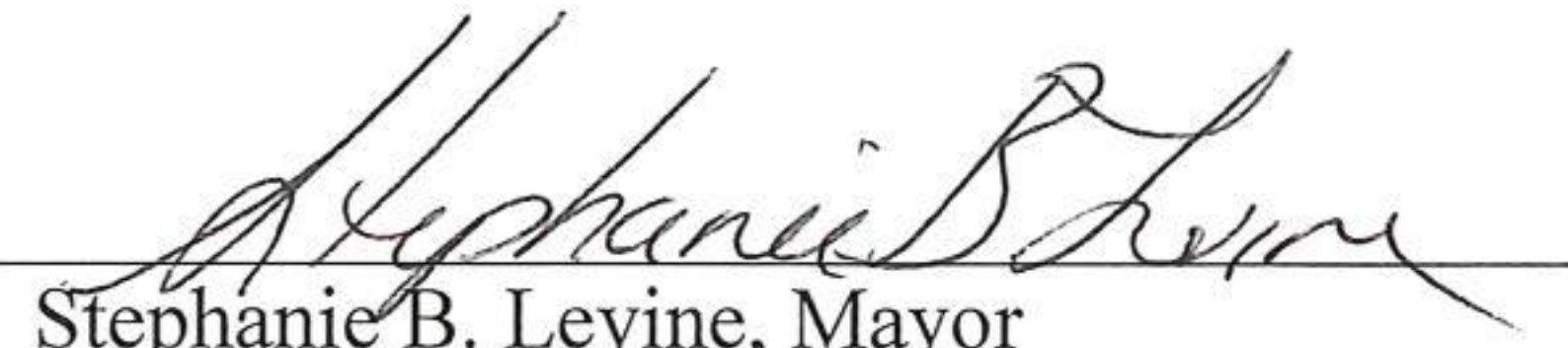
ADJOURNMENT

Mayor Levine adjourned the meeting at 6:18 p.m.

ATTEST:



Christine Lusian, City Clerk



Stephanie B. Levine, Mayor