

**WORKSHOP MEETING  
OF THE COUNCIL OF THE  
CITY OF VADNAIS HEIGHTS  
AUGUST 26, 2020**

The workshop meeting of the Council of the City of Vadnais Heights was held on the above date and called to order by Mayor Gunderson at 5:35 p.m.

The following members were present: Mayor Heidi Gunderson, Council Members: Greg Urban, Patricia Youker and Bob Morse. The following member was absent: None.

Also present were: City Administrator Kevin Watson, Assistant City Administrator Tim Sandvik, Planning/Community Development Director Nolan Wall, Public Works Director Jesse Farrell, Finance Director Bob Sundberg, Interim Fire Chief Chris Hearden, and Deputy City Clerk Peggy Aho.

**1. Capital Funding Analysis Discussion**

Finance Director Sundberg introduced the documents that were prepared by staff for the Council's review and gave a presentation on an analysis of the city's capital assets. Sundberg talked about the capital funding analysis which is a high level look at the city's infrastructure and equipment which is a dynamic document and should be updated annually. He noted the long-term perspective is that capital assets are not one time costs, similar to employees, they should be considered as annual costs.

Sundberg noted that the ultimate goal is to minimize costs over the useful lives of assets and to smooth out the costs to the taxpayers. He said that the challenge with equipment is to find the sweet spot as to when to replace equipment. He said that as the years of use on a piece of equipment increases, the salvage value decreases and the maintenance and down-time costs increase.

Sundberg reviewed the analysis included in the memo. He identified the asset areas as: street improvements, utility assets, major City buildings, city buildings maintenance items, trails, park facilities, streetlights, parking lots, Fire Department equipment, and Public Works equipment. He noted that the City should do further analysis of city trails and streetlights, perhaps by using a third party. He talked about the items that rely on taxpayer-generated capital funds to finance replacement including buildings maintenance, parks facilities, parking lots, Fire Department equipment, and Public Works equipment (mostly rolling stock). He said that the biggest things that impacts the analysis of annual costs is the salvage value and useful life. Because the city gets favorable purchase terms with State contract pricing, it makes sense in certain cases to replace equipment sooner rather than later. The challenge is to determine when the auction or sales price declines most rapidly and to sell before that time. In this manner, cost over the equipment's lifetime are minimized.

Sundberg said that no decision needs to be made tonight, it is just to begin the conversation. Mayor Gunderson asked what the goal is for completing the analysis. Public Works Director/City Engineer Farrell said that street lights are way off the radar at this time, but in

looking at out utilities, it seems that at this time it is funded at the right level. He said that the City has healthy utility rates. He said that water, sanitary sewer and storm sewer are big items and he is proposing a modest increase to those fees next year. He noted that the next item would be streets, and said that this Council and the previous one have increased the funding for street improvements from \$0 to \$600,000 a year. He said in year five in the proposed budget for next year, the City funding amount would go from \$600,000 to \$750,000 a year. He said that this is probably still not enough. He noted that the City is not issuing debt for street improvements, whereas, most of the local cities are.

Farrell noted that the City capital infrastructure mainly includes its facilities. He said we are at the end of the golden age when we built a lot of infrastructure but we haven't had to put money away for improvements, and now staff realize we should have been putting away about a \$150,000 a year so that when these bigger expenses come up it's not a big hit to the taxes. He said that we are entering a period when the Council may have to identify a steady funding source for facility improvements. Sundberg said the City would have to have \$671,000 per year to maintain its current infrastructure.

Mayor Gunderson asked if the City were to begin doing this, what would a reasonable time to implement this. Sundberg replied that the preliminary analysis shows that we would need \$9.4 million and the City currently has approximately \$3.3 million. He said we would need to set aside probably more than \$200,000 a year for the foreseeable future to achieve this funding goal, Fire and Public Works request what they really need to replace after many items have been pushed back for several years. Sundberg noted that the City has been slowing building up the fund in recent years.

Council Member Morse asked if we know what areas we can look at perhaps to decrease expenses to reduce the levy amount. Morse said we need to be creative about ways to look at cutting costs. Watson replied that the City runs a lean operation and provides a great level of service and we have some fairly major expenses that are getting kicked down the line but may need to be covered soon.

## **2. Levy, Budget and CIP Discussion**

The Council then discussed the budget documents and the proposed levy amount. Sundberg noted that staff are proposing lowering the 2021 levy by about 1%. This levy would recognize continuing Covid hardships and would assist taxpayers. He noted that the general fund is relatively unchanged from the last year and capital spending is constrained with only two CIP purchases being proposed, the \$36,000 match for the FEMA grant and purchase of one of the Public Works trucks. Watson noted that the City had a shortfall of revenue this year and that next year might continue that way.

Morse suggested that the City look into using solar energy power. Watson noted that they have looked into solar energy and were told that the Fire Station and City Hall are not good candidates and that the Commons would be but not until the roof is replaced.

Sundberg reviewed a summary of the proposed levy decrease of 0.9%. He said that more specific Ramsey County Sheriff's office numbers may be available at the next Workshop.

Council Member Urban said that the Council needs to think about what the priorities are and leave here tonight with what it feels the appropriate tax increase would be and then staff can tailor some of the 2022 into 2021. Gunderson said that she agrees, and that she appreciates staff doing the pared down list, but we need to not be putting things off that would be more prudent to do now.

Morse asked Farrell what he would want to do if the City had an extra \$50,000. Urban said that it is important but the big looming shadows are the big \$1.5 million fire trucks, such as those that fire uses. Farrell said yes the big ones are for big fire items. He said he would wish to put away a \$100,000 this year and commit to doing that again, to build up for the larger expenditures in the future. Gunderson said that she thinks being a little higher and more consistent so that our taxpayers don't have a huge spike coming later. Urban asked if there is any other purpose for that fund other than emergencies. Sundberg replied that the fund is used exclusively for capital replacements. Watson said that there is a balance between using savings and budgeting for big expenditures. Urban said since that savings is several years' worth of our budgets, could we say that that \$3.3 is a bit excessive. Sundberg if you look at the analysis it's not just for those type of purchases, it can be used for many different items including buildings, trails and parks equipment. Urban should we use that up instead of sitting on taxpayers moneys.

Watson said that may be the Council should set a policy on how much they want to save each year and maintain in that pot. Urban said that he gets the idea of saving up and having an emergency fund, but this fund balance is twice of what our most expensive piece of equipment is. He said he thinks it might be a little bit too high. Gunderson replied that it won't be for long. Watson said it was \$1.5 million not too long ago and were within one ladder truck from zero balance. Urban said the biggest thing is that the levy is on a constant basis bringing in a yearly replacement value of equipment. Farrell said he would be more comfortable if there was already money sitting in the bank for facilities and for equipment and that the more this Council sets aside this year the easier it will be for future Councils to set aside funds. Sundberg said that most cities spread out the costs for those benefiting from each piece of equipment. He said one could charge taxpayers for the portion of assets used each year. Funds accumulated are placed in an equipment replacement fund. When assets are retired, the funds to replace the asset are in place.

Gunderson asked why we transfer \$500,000 each year. Sundberg replied that the practice precedes his time here but if the City didn't do that it would have to increase the tax levy 10%. It is a way to ensure that properties that don't pay property taxes contribute to the city's costs through their utility fees. Urban said that he believes that this is a sound practice and should continue.

Council Member Youker said that we had talked about possibly sharing fire trucks with other cities, and asked if that conversation has gone anywhere. Watson replied that he has talked with Fire Chief Hearnden about it. Hearnden noted that a ladder truck is a piece of equipment you need at certain moments, sharing that equipment we would certainly need to have an agreement to

cover how the cities pay for it, how staff are properly trained. He said it looks good on paper, but in reality when it comes down to it, it isn't a good idea. He said for example if Little Canada shares the ladder with us and they take it out for training and damage it, then whose costs is it, do we pay for the annual maintenance, etc. and if we can't get it when we need it, are we getting our fair share of the equipment. Youker asked how often it is used. Hearnden said it is our second truck out and it averages 3 to 5 major fires a year, and a dozen more times it gets activated and runs out or if we have a second call.

Urban asked how Vadnais Heights is ranked as far as fire departments on the amount of residents they serve. What is the average that a fire department serves? He said that at some point, as we continue needing more full time staff, we need to look at collaboration. Hearnden talked about how the crews have changed over the years, the demands on them has changed, and the training that is needed has increased.

Urban asked if Vadnais Heights is too small of a City to go to a full-time Fire Department for that to be cost effective. Hearnden noted that Stillwater and St. Anthony have fulltime staff 24/7 and a handful of others. He said that for the foreseeable future, the duty crew is a good way to go.

Morse said that he agrees with Urban that if we don't collaborate at some point we are going to have to merge. We should look at that and see if there is a savings to being larger. Perhaps now is not the time, but we should plan for it.

Watson said that he and Hearnden have had many conversations about ways to reduce costs in the Fire Department and Sheriff budgets.

Watson noted that he plans to keep next week's Workshop fairly light so to allow time for the Council to continue to discuss the budget and then it should be ready for them to act on at the September 15<sup>th</sup> Council meeting.

Planner/Community Development Director Wall noted that the Community Development budget is pretty flat. He said there will be a slight increase in communication costs. Biggest initiative we are looking at doing is upgrading our software. Upfront cost is probably in the \$25 to \$30,000 range and then yearly subscription service. He said he will bring this back to the Council to review and consider.

Wall noted that Community Development had a salary swap and that administrative costs went up and that the cost of the new inspector came in lower than the previous inspector. Wall also noted that the City could increase revenues in the Development Budget by attaching a technology fee for on-line activities, which is something other communities do.

Public Works Director/City Engineer Farrell noted that the Public Works budget, much like the other department budgets, increased mostly for personnel costs. He noted that all of his budgets were cut everywhere they could be except for the outlier for the maintenance costs and a lot of that is HVAC repairs. He said there is also a small reduction in street maintenance.

Interim Fire Chief Hearden noted that the Fire Department budget is flat and that the biggest change will be salaries due to staffing changes. Watson said that they will have a proposal at the next Council meeting for the purchase of a Chief Vehicle.

Assistant City Administrator Sandvik noted that one adjustment made in Elections costs is to cover the cost of election services with Ramsey County. He said that our elections judges are the lowest paid in the area. Sandvik said that Parks and Rec expenditures will be dependent on what programs they are able to run next year. Their approach was to keep the budget as flat as they could. Sandvik noted that the Commons budget is complicated and staff are projecting some expenditures to be pushed from this year to next year.

Watson noted that in the Administration account, the majority of the jump is for salaries and benefits and a salary survey. He said that the Ramsey County Sheriff's office increase is fairly significant and that cost is based on population and number of calls.

Watson noted that League of Minnesota Cities, EBBQ and VHEDC are keeping their fees flat for next year and NYFS is asking for a little increase. He said that the City may get another request from VHEDC.

Sundberg noted that the Finance Department costs have gone up slightly with new staff. The IT budget is held flat. He also noted that special revenue funds are self-supporting and don't use levy funds.

Watson noted that staff are looking for direction from the Council so that they can bring back updated information at the next Workshop. Gunderson thanked staff for looking at the items out on the horizon and said if there is something on this list that staff are kicking off but they really need, she would like to hear from them. Urban said that each of the Council Members should give a number for what they would like the percentage of increase to be. He thinks 2.5% a year is good because everything goes up and that a 2.5 to 3.4% increase would be acceptable to him. Gunderson said that they need to have a responsible number.

Watson said staff will look the draft budget and bring forward recommendations.

Meeting adjourned at 7:41 p.m.