

Each year, the city updates its Capital Improvement Plan (CIP) for the upcoming five years, as a guide for large expenditures on things like roads, sewers, major equipment, and vehicles. Perhaps because there wasn't a lot of controversy, perhaps because it doesn't seem so immediate like next year's tax bill, it's easy for the city's capital improvement plan to fly by under the radar. You might not have heard that the city council voted to cut Maplewood's planned future spending by almost \$12 million.

The Impact of Debt

In 2009, we are reducing our general fund operating levy. However, our total tax levy is increasing 2.1%. The main reason for the difference is a debt service levy increase of \$357,415. The city requires these funds in order to make bond payments – to pay back the money borrowed for city projects over the past fifteen years.

Debt is not all bad. By issuing tax-exempt bonds, the city is able to borrow money at low interest rates. We can improve our infrastructure without having to save up the money first. This spreads the cost over future years and the future taxpayers who benefit from the improvements. Debt enables us to let residents pay special assessments over time. If your street is rebuilt, your assessment can be collected with your property taxes over fifteen years, rather than making you pay cash up front.

But, as this year's budget demonstrates, debt also poses a risk for the future. We must pay it back as scheduled, and that limits our flexibility each year as we set taxes and budget priorities. Nearly 24% of your 2009 property taxes go to pay principal and interest on the city's debt.

Planning for the Future

We can't erase past debt or return a street repair job for a refund. What we can do is change the plan going forward, to reduce the impact of debt on future budgets and tax levies.

On August 28, 2008, the city council voted on the 2009-2013 CIP. At earlier meetings, we had requested that staff give us options for reducing the city's future debt. Councilmember Hjelle made a motion, which I seconded, to adopt the CIP with a set of delays and deferrals of street reconstruction projects. The motion carried unanimously. The result was to reduce the proposed CIP by a total of \$11,707,000. That in turn will mean \$9,458,500 less bonding. For us taxpayers at large, it means \$3,628,000 less in new general obligation debt (bonds whose repayment depends on all of us taxpayers, as opposed to a dedicated source such as special assessments or state highway funds).

Assuming we stick with this plan, at the end of 2009 our net debt outstanding will actually be lower than it was at the start of the year. This wasn't able to help us balance the budget for 2009, but it will put us in a better position for 2010.

The Big Picture

In my view, to be fiscally responsible, we need to keep up the investments in our community, but we also need to preserve our flexibility to react to changing circumstances. Debt is a useful tool for a city, but just like household debt, it needs to be used in moderation and with an eye to the long-term future and the uncertainties along the way. Just as an individual can lose a job, a city can lose state funding (such as the year-end cuts in Market Value Homestead Credit) or other revenue sources. High levels of debt makes it harder to react to such events.

My hope is that in the coming years we will gradually shift more to a "pay-as-we-go" basis, and reduce our reliance on general obligation debt.

Postscript

On a different topic, readers should know that portions of the mayor's column in last month's city newsletter were taken from my website (www.johnnephew.com/blog) without permission or attribution.

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