City Council Agenda #14
Meeting of Sept. 12, 2022

Title:	Items related to the 2022 preliminary tax levy 1) Resolution setting a preliminary 2022 tax levy and preliminary HRA levy both collectible in 2023, a preliminary 2023 budget and consenting to a special benefit tax levy of the Minnetonka Economic Development Authority 2) Resolution setting a preliminary 2022 tax levy, collectible in 2023, for the Bassett Creek Watershed Management Tax District
Report from:	Darin Nelson, Finance Director
Submitted through:	Mike Funk, City Manager Moranda Dammann, Acting Assistant City Manager

Action Requested:	☒Motion	☐Informational	☐Public Hearing		
Form of Action:	☒Resolution	☐Ordinance	☐Contract/Agreement	☐Other	☐N/A
Votes needed:	☒4 votes	☐5 votes	☐N/A	☐ Other	

Summary Statement

We are pleased to propose to the city council a 2023 levy and budget consistent with our strategic goals and community values. Within that framework, the budget recommendations presented are both forward-looking and responsive to the community and the city council's concerns, specifically to ensure that city services are maintained. The proposal aligns with the reaffirmation by a considerable majority of Minnetonka community survey respondents that they would support an increase in taxes to maintain current city service levels. The recommendations are built using long-term forecasts, including a conservative eye on the national economy and technological changes.

As always, the City of Minnetonka will continue to provide the excellent services that our residents and businesses have come to expect, and at a reasonable value, both in 2023 and well into the future.

Recommended Action

Staff recommends the city council adopt the following resolutions and approve the motion:

1) A resolution setting a preliminary 2022 tax levy and preliminary HRA levy both collectible in 2023, a preliminary 2023 budget and consenting to a special benefit tax levy on the Minnetonka Economic Development Authority;

2) A resolution setting a preliminary 2022 tax levy, collectible in 2023, for the Bassett Creek Watershed Management Tax District; and

Strategic Profile Relatability

☒Financial Strength & Operational Excellence	☒Safe & Healthy Community
☒Sustainability & Natural Resources	☒ Livable & Well-Planned Development
☒Infrastructure & Asset Management	☒ Community Inclusiveness

☐ N/A

Statement: The city's six strategic priorities drive the development and direction of the annual budget.

Financial Consideration

Is there a financial consideration? ☐No ☒Yes

Financing sources: ☐Budgeted ☐Budget Modification ☐New Revenue Source ☐Use of Reserves ☐Other [Enter]

Statement: This action sets the preliminary tax levies collectible in 2023 and establishes a preliminary 2023 budget.

Background

As discussed at the city council's August 15 study session, staff recommended increasing the 2022 preliminary city levy, collectible in 2023, by 7.1 percent or 7.0 percent including the $25,000 reduction in the Housing and Redevelopment Authority (HRA) levy. Since that time, staff has been able to realize operational budget savings, thus reducing the levy increase to 6.85 percent and 6.75 percent inclusive of the HRA levy.

The city's proposed levy increase of 6.85 percent places Minnetonka's levy increase in the middle of a group of similar metro cities.

Our Public Process

State law requires cities, school districts and other government taxing jurisdictions to certify preliminary budgets and tax levies to the county by September 30, 2022. This is the maximum amount the city can levy in 2022 for collection in 2023. Counties then report these preliminary levies to all property owners in early November.

Guided by the council's initial discussions in August, staff will develop detailed budget requests for council's review in November and final adoption in December. At the November 21 study session, staff will have a more complete picture of revenues and expenditures for the current year, along with any additional information available for forecasting 2023. The final 2022 levy, collectible in 2023, may be less than the preliminary amount, but cannot be greater.

Minnetonka always encourages input on its budget from the public. In addition to the public budget discussion scheduled and published on proposed tax notices by Hennepin County for

December 5 at 6:30 p.m., residents and businesses will again have the opportunity to provide feedback via the city's website, www.minnetonkamn.gov, opportunities that are publicized in the *Minnetonka Memo*. Comments will be shared with council as budget options are considered, and updated information will consistently be posted in the *Memo* and on the city's website.

Long-Term Financial Planning and Sustainability

The city's strategic profile outlines six strategic priorities, of which financial strength and operation excellence is one. This strategic priority focuses on the city's long-term financial position and providing innovative, responsive, quality city services at a level that reflects community values and is supported by available resources.

The preliminary budget and levy focus on the long-term financial sustainability and its impact on future levy increases. The current 2022 budget utilized federal American Rescue Plan Act (ARPA) funding to buy down the levy by $1 million. This levy buy-down is a one-time action and must be added to future levies to restore this one-time reduction to maintain service levels. Part of the plan for the ARPA funding is to buy down the General Fund levy by $1 million in 2022 and $500,000 in 2023. The $500,000 difference in these levy subsidies needs to be added to the 2023 levy to maintain service levels. Five hundred thousand equates to a levy increase of approximately 1.1%. The 2024 levy will also need to add an additional $500,000 to the levy as the remaining ARPA funds are depleted at that point.

The city's General Fund ended 2021 with a very healthy unassigned fund balance of approximately 59 percent of the ensuing year's expenditure budget. This solid financial position was due in part to federal funding received in 2020 and 2021, along with stronger than anticipated building permits. The city's General Fund fund balance policy requires a balance between 30 to 50 percent of the following year's operating budget. The city council may appropriate balances above 40 percent for one-time costs that have no ongoing financial commitments.

Excess General Fund fund balance is routinely programmed within the Capital Improvements Program (CIP) due to the one-time nature of the projects. The 2023 preliminary General Fund budget is programming transfers of $2.35 million to various CIP funds. This will reduce the fund balance to an estimated 42.5 percent at the end of 2023.

2023 Budget Initiatives and Influencing Factors

Personnel

The preliminary General Fund 2023 budget is estimated to be $46.6 million, an increase of 6.5 percent or $2.8 million. Over three-quarters of the city's General Fund operating expenditures is the cost of its greatest assets, its employees. A cost of living adjustment (COLA) has been preliminarily set at between two and three percent along with a potential market increase, which is dependent upon each position's comparable position in other cities. Preliminary estimates indicate a total wage increase of approximately 2.6 percent or $1.1 million. Again, these are preliminary estimates. The council will ultimately determine final COLA adjustments, which are either already set by existing union contracts or will be set through upcoming union contract negotiations, and finally by approving all 2023 non-union wage adjustments in December.

In 2021, the city exited the LOGIS healthcare consortium in favor of bidding on its own health insurance. The bidding environment was very favorable. As a result, the city saw a decrease in

2021 premiums with a cap on rates for 2022, limiting the city's exposure in the second year of the contract. This move saved the city about $585,000 in 2021. The 2022 health insurance rates did increase to the 12.5 percent cap. This increase was directly attributed to a rise in our claims, which equated to an additional cost of $330,000. This year's rate is not protected with a cap and is budgeted for a ten percent increase, which equates to about $391,000.

Another significant increase impacting personnel costs relates to workers' comp insurance. Rates for this are set by the League of Minnesota Cities Insurance Trust and are also dependent upon the city's experience rating. The city's experience rating has been extremely low, which provides significant savings. However, that experience rating is expected to increase and coupled with increases in rates, most notably around public safety employees, the city is anticipating a General Fund increase of $264,000.

Lastly, the 2023 budget includes an additional staffing request of 5.4 full-time equivalents. These new requests include:

- *Two full-time firefighter technicians.* These two positions will allow for 24/7 staffing of fire station #1. The full-time fire staffing hired this year will allow for 24/7 staffing of fire station #3. The combined cost of these two firefighters is about $235,000, of which about $100,000 of realized savings are recognized in the budget between a decrease in paid on-call staffing, training and equipment costs.
- *One data analyst position to be shared between police and fire.* The police department has been very active in recent months in collecting data. Still, the department lacks the capacity to analyze the data to be proactive with intelligence-lead policing efforts. The fire department would utilize this position to aid the department in statistic tracking, which is required as part of the department's accreditation goal. This position has a cost of $96,200 that would be split between the police and fire departments.
- *One park maintenance public service worker.* This position has an estimated cost of $109,500. The lack of available seasonal help is driving this request. It is increasingly difficult to find seasonal help for mowing and snow removal. The hiring of one full-time position maintenance position would be partially offset by a $25,000 decrease in seasonal salaries, but provides more adequate and reliable shift coverage.
- *One human resources wellness and safety specialist.* This position has an estimated cost of $116,000. Over time, there is a positive return on this investment in that it is expected the position will pay for itself. As evidenced by the 2023 increase in health insurance and worker's compensation costs, this new position will develop a stronger, more aligned wellness program and develop a centralized safety program that will give the city greater control of future annual health care and worker's compensation costs.
- *Legal assistant moving to full-time from part-time.* This position was created in 2021, in coordination with the police department's use of body worn cameras. The number of videos requiring review has increased, as older cases with only squad videos are resolved and replaced with new cases that involve both squad and body camera videos. The position's workload will continue to increase as the court works through its backlog of jury trials and an increasing percentage of cases include body camera videos. The estimated cost of moving this position to a full-time benefited position is $44,900.

The total cost of the new staffing is approximately $602,000, which equates to a 1.3 percent increase in the levy.

Inflationary Pressures

Similar to our residents and businesses, the city is experiencing inflationary pressures in almost all facets of operations. Fuel costs for next year are budgeted to increase by $184,000 or 50 percent. We have seen some recent reprieve at the pump, but our gasoline contract pricing is still expected to jump from its current pricing of $2.50 gallon to something much higher. Fleet parts and service is experiencing soaring inflationary costs and is expected to increase an additional $93,000 next year to $1.21 million.

Natural gas and electricity costs are also increasing and are substantially impacting the budget. Similar to gas and diesel costs, natural gas thermal rates have already increased and are anticipated to be 35 percent higher for this next year. Electricity is also expected to increase by about 12 percent. Combined utility costs will be increasing by $117,000, which equates to a 0.3 percent increase in the budget.

Departments are anticipating increases in almost all other service delivery and supply costs. In June, the Consumer Price Index (CPI) rose 9.1 percent over the past 12 months. In comparison, the Municipal Cost Index (MCI) rose 12.5 percent from May 2021 to May 2022. The MCI tends to be a more accurate inflationary picture for local governments since it measures goods and services utilized by municipalities versus the goods and services used by individual consumers. Unfortunately, inflation is having a tangible impact on the city's budget. The 2023 budget has accounted for some specific increases for certain areas. Still, overall the budget is not keeping pace with inflation, and departments will be required to be creative in maintaining their current service levels.

What's Not in the Budget

The CIP levy was reduced from a preliminary levy increase of $790,000 to a reduction of $407,000 to reduce the 2023 preliminary levy to a 6.85 percent increase. This reduction was made possible by utilizing General Fund reserves in 2023 and future years while gradually recouping lost CIP levy dollars in the coming years. The CIP's out-year balances are manageable, but a concerted effort is needed to ensure funding is restored in the future, or future projects may need to be delayed.

For the last few years, staff has been trying to move the last half of the Cable TV Special Revenue Fund operational costs over to the General Fund. Cable franchise fees support the operations and capital outlay in this fund. These fees have been declining as more and more people move away from cable television in favor of internet streaming services. Staff has been planning to move the remaining full-time employees and other operational costs not associated with cable programming out of the fund and into the General Fund, thus ensuring the fund remains viable. The first half of this transition was completed in 2020, and the second half was initially planned for 2021 until COVID-19 impacted that year's levy request. That move was then delayed until 2023. In trying to reduce the 2023 levy to a manageable level, staff is further delaying this move until 2024. This move saved the 2023 levy $327,200 and is tentatively programmed to be included in the 2024 levy.

2023 Preliminary Levy

Since recovering from the recession beginning in 2014, the city's community survey has shown our taxpayers' consistent recognition of the value of city services and remarkable support to increase taxes in order to maintain city services. In the 2022 survey, 72 percent of those who stated an opinion still favored such an increase.

The 2023 proposed operating and capital budgets require an overall net increase in the city property tax levy of 6.85 percent to maintain city services. This increase includes all the changes mentioned earlier in this report, along with $500,000 in ARPA funds to subsidize the levy increase. Although appearing separately on property tax statements, the HRA levy would decrease by $25,000, which equates to a 0.1 percent decrease in the city's overall property tax levy impact.

2023 Levy Analysis

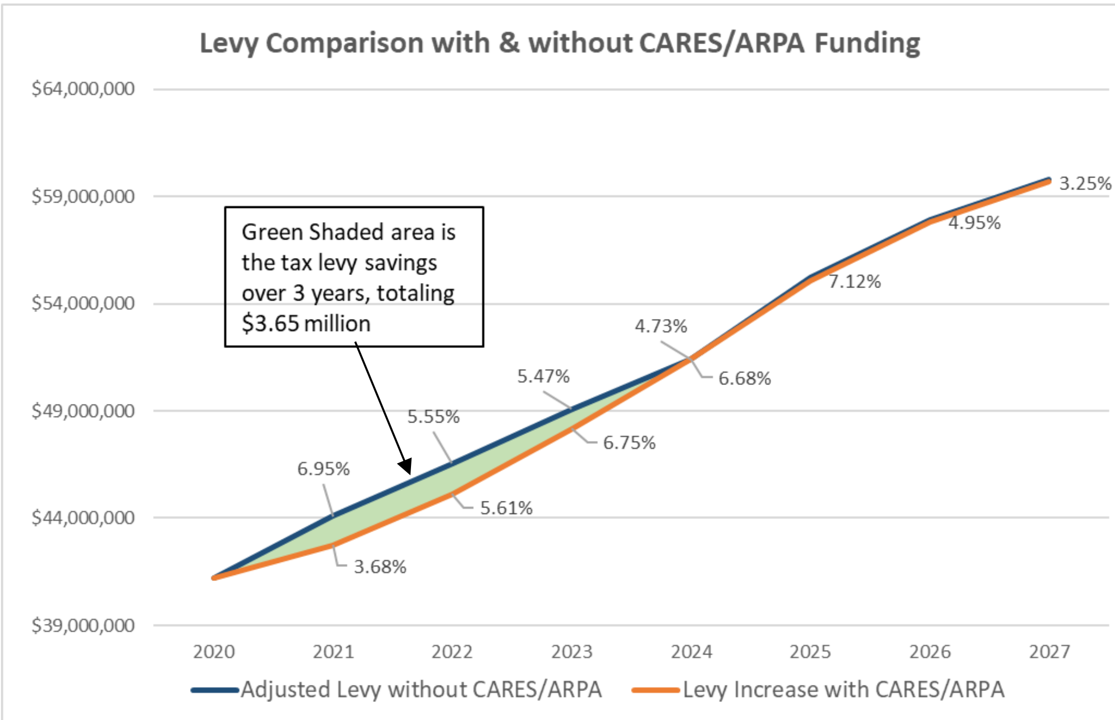
Levy (thousands)	2022	2023	Change
City property taxes, current services	44,815	44,815	0.0%
Prior Year One-Time Requests		(127)	-0.3%
ARPA Levy Reinstatement		500	1.1%
Staffing COLA		1,091	2.4%
Workers Comp		264	0.6%
Health Insurance		391	0.8%
Energy Costs		117	0.3%
Fleet Maintenance		93	0.2%
Fuel Costs		184	0.4%
General Liability Insurance		50	0.1%
Other General Fund Supplies & Services		111	0.2%
New Staffing Requests		602	1.3%
New Requests		201	0.4%
CIP Levy Increases/(Decreases)		(407)	-0.9%
Total	***44,815***	***47,885***	***6.85%***
HRA	325	300	-7.7%
Total City Levies	***45,140***	***48,185***	***6.75%***

The 2023 levy estimate excludes the decertification of the Boulevard Gardens TIF district. This district is estimated to provide approximately $500,000 of additional levy capacity without impacting existing taxpayers. This additional tax capacity effectively decreases the levy impact by about 1.1 percent to existing taxpayers.

Levy Forecast

Over the last two years, the city has been fortunate to receive federal grant funding from the CARES Act and ARPA. These allotments have aided the city, and its residents and businesses in battling and fending off COVID-19 from the health and financial impacts felt by many. In addition, these grants have allowed the city to provide property tax relief in 2021, 2022 and 2023, thus reducing our necessary tax collections by $3.65 million over this same timeframe.

The blue line in the chart below represents the potential levy if federal funding had not subsidized the levy from 2021 through 2023. If federal funding had not been received, the 2023 preliminary tax increase would have been estimated to be 5.47 percent, which is lower than the currently requested 6.75 percent. However, the total tax collections under the 6.75 percent levy increase are $900,000 less than if we had not received federal funding. 2023 is the last year of available tax relief and thus will also require a larger levy increase in 2024 to maintain the current service levels.



Due to some of the shifting taking place with the 2023 budget and levy, the 2024-projected levy includes a few baseline costs that will need to be considered this time next year. Those costs include:

- 2023 ARPA property tax relief recoupment - $500,000
- Cable TV staff and operations - $327,200
- Reestablishing the CIP levy - $710,000
- Presidential election cycle - $145,000
- Interfund loan repayment for the Community Center remodel - $248,800

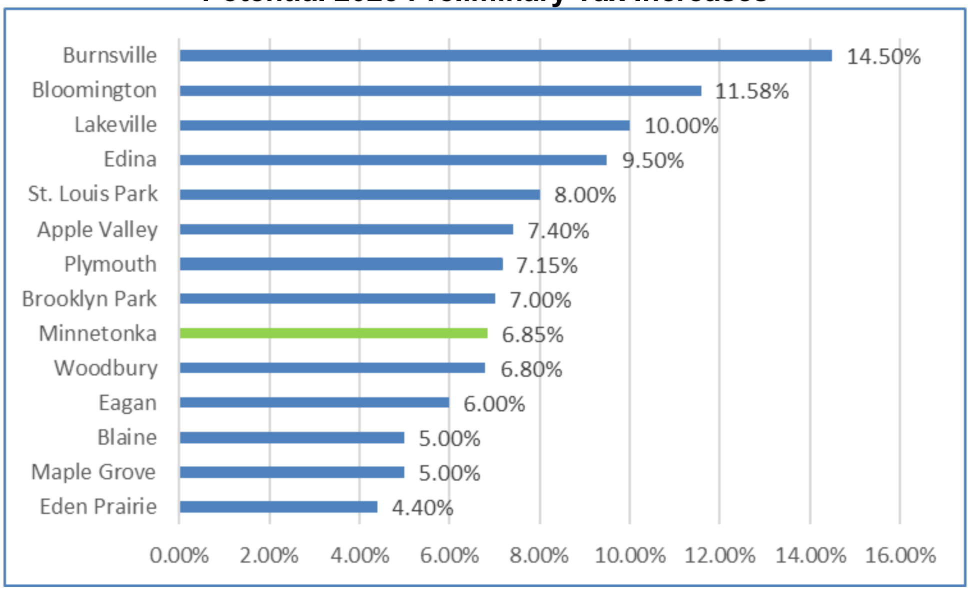
These costs, plus other routine increases related to personnel and other services and charges, increase the estimated 2024 levy to approximately 6.7 percent.

The 2025 budget includes funding for approximately nine full-time firefighters as the department continues transitioning to more career-orientated staffing. The 2025 budget also adds a patrol officer with a second officer planned in the 2027 budget. These additions are based on current and projected population growth along with the light rail system coming online.

Comparisons with Other Cities. The proposed 2023 city levy increase is likely to place Minnetonka in the middle of our comparable cities. These percentages are only potential levy increases and may change between now and when cities formally adopt their preliminary levies. As a reminder, each city is unique and their tax levies can vary for a number of reasons.

Similar to all our comparable cities except for one, Minnetonka does not and will not receive LGA in 2022. Equally important, unlike many of these other cities, the city does not rely upon special assessments to fund street reconstruction and maintenance.

Potential 2023 Preliminary Tax Increases

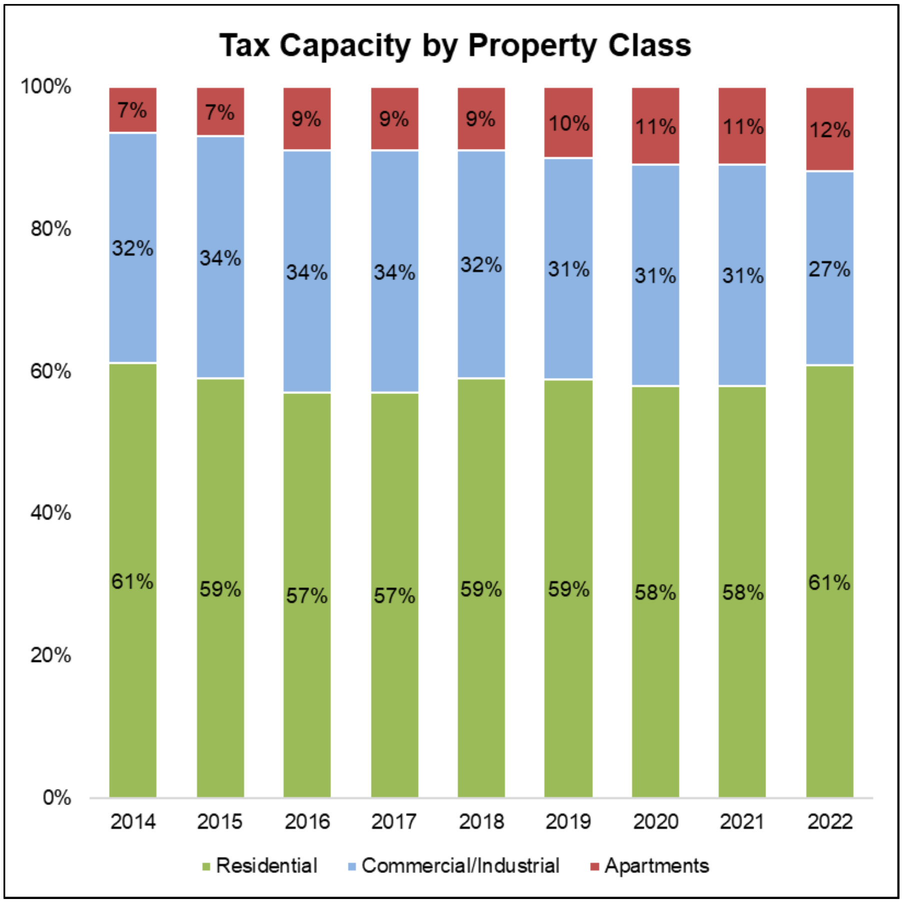


Homeowner Impacts. New development and redevelopment in the city again increased the city's property tax base last year, as reported in March by the city assessor. Over the previous nine years, the city's assessed market value has increased by 58 percent. A portion of that increase results from improved real estate as opposed to market forces alone.

The table below outlines this year's growth (including new improvements) in the market by major property type.

	Overall Growth	**Total Change (millions)**
Single-family Residential	16.1%	$943.8
Lakeshore	23.1%	$91.9
Townhouses	10.8%	$73.4
Condominiums	7.1%	$42.7
Commercial	3.9%	$62.6
Industrial	10.3%	$36.9
Apartments	12.9%	$174.7
Other Property Types	9.4%	$24.0
Total Change	**13.0%**	**$1,450.0**

The varying growth rates of the different property classifications equates to a shift in property tax burden. The tax burden between property types tends to ebb and flow over time as market conditions affect properties differently. Most notably for taxes payable in 2023 is the increase in all residential housing property types. This residential increase will cause a shift in tax burden towards all these property classes while shifting the tax burden away from commercial properties. The apartment growth over the last several years is mainly due to new construction, which adds to the tax base and helps alleviate some of the tax burdens for all taxpayers.



Calculating the impact of changes in property taxes on homeowners in Minnesota requires a complicated mix of data and information that changes each year, some of which depends upon legislatively defined formulas, such as the state fiscal disparities program. Estimates indicate that a median-valued home that increased in value 15.6 percent to $468,500 will see a monthly tax increase of $8.25 or $99 per year, which equates to a 6.6 percent increase. The expiring TIF district and the additional tax capacity that it generates has effectively eliminated much of the shifting tax burden residential property owners would have experience.

HRA LEVY

The city's first levy for housing and redevelopment began in 2009. State law limits levies, and the maximum rate is 0.0185 percent of a city's taxable market value. This equals approximately $2 million for Minnetonka in 2023. On June 20, the city council reviewed in a study session the 2023–2027 Economic Improvement Program (EIP), which recommends the 2023 HRA levy decrease by $25,000 for a total levy of $300,000. The indicated uses of the funds are SW Light Rail ($75,000), Housing Programs ($100,000), and Homes Within Reach ($125,000). This is the same information that was also presented at the August 15 budget study session.

Attachment:
General Fund Preliminary Budget

City of Minnetonka
2023 Preliminary General Fund Budget

Object Account	2020 Actual	2021 Actual	2022 Budget	2023 Requested	$ Change from 2022 to 2023	% Change from 2022 to 2023
Revenues						
Property Taxes						
4010 - AD Valorem Tax Levy	$ 29,560,970	$ 32,109,862	$ 33,760,800	$ 37,230,000	$ 3,469,200	10.3%
4020 - Uncollectible Taxes	180,502	240,230	(200,000)	(200,000)	-	0.0%
4030 - Tax Penalties and Interest	24,335	61,576	24,000	24,000	-	0.0%
4050 - Tax Forfeit Sale Revenue	-	25	-	-	-	
Total Taxes	29,765,806	32,411,694	33,584,800	37,054,000	3,469,200	10.3%
Licenses & Permits	4,283,867	4,587,093	3,081,900	3,207,400	125,500	4.1%
Intergovernmental	5,245,070	3,578,239	1,211,300	758,840	(452,460)	-37.4%
Charges for Services	363,091	441,186	551,000	345,950	(205,050)	-37.2%
Fines & Forfeitures	204,465	167,539	253,500	135,000	(118,500)	-46.7%
Investment Interest	665,712	(38,619)	575,000	1,156,400	581,400	101.1%
Recreation Charges	564,565	1,066,249	1,193,900	1,245,000	51,100	4.3%
Miscellaneous	785,389	949,063	857,200	726,050	(131,150)	-15.3%
Transfers In	1,447,500	1,457,800	1,469,200	1,494,800	25,600	1.7%
Total Revenues	43,325,466	44,620,243	42,777,800	46,123,440	3,345,640	7.8%
Expenditures						
Personnel Services	28,140,524	29,907,169	33,707,100	35,928,100	2,221,000	6.6%
Supplies	1,432,356	1,559,969	1,830,750	1,988,900	158,150	8.6%
Other Services & Charges	6,940,883	7,549,595	8,239,950	8,706,440	466,490	5.7%
Total Expenditures	36,513,763	39,016,733	43,777,800	46,623,440	2,845,640	6.5%
Revenues Over/(Under) Expenditures	6,811,703	5,603,510	(1,000,000)	(500,000)	500,000	3.1%
Other Financing Uses						
Transfers Out	4,174,608	3,954,603	2,888,000	2,471,000	(417,000)	-14.4%
Total Revenues Over/(Under) Expenditures after Transfer Out	$ 2,637,095	$ 1,648,907	$ (3,888,000)	$ (2,971,000)	$ 917,000	
Expenditures by Department						
10 - Mayor & City Council	$ 320,636	$ 217,068	$ 303,100	$ 305,000	$ 1,900	0.6%
11 - General Administration	819,897	685,907	1,023,300	884,000	(139,300)	-13.6%
12 - Community Center	457,627	471,890	621,000	695,200	74,200	11.9%
13 - IT	1,056,028	1,124,164	1,374,500	1,423,900	49,400	3.6%
14 - Legal	880,361	955,710	1,007,800	1,090,100	82,300	8.2%
15 - Finance	1,020,877	1,150,758	1,176,850	1,082,200	(94,650)	-8.0%
16 - Assessing	823,894	855,446	919,000	954,600	35,600	3.9%
17 - Building Maintenance	1,338,022	1,620,458	1,731,500	1,913,800	182,300	10.5%
18 - Joint Recreation	1,136,970	1,558,368	1,870,850	1,930,400	59,550	3.2%
19 - Planning	627,696	675,436	858,800	844,100	(14,700)	-1.7%
20 - Engineering	1,249,141	1,332,207	1,512,900	1,574,800	61,900	4.1%
21 - Community Development	2,211,781	2,228,615	2,510,500	2,614,900	104,400	4.2%
22 - Street Maintenance	3,343,355	3,576,645	4,041,450	4,399,740	358,290	8.9%
24 - Parks & Trails	1,863,058	2,049,415	2,171,500	2,369,900	198,400	9.1%
25 - Police	11,022,379	11,637,838	11,882,050	12,726,900	844,850	7.1%
26 - Fire	3,852,327	3,971,849	5,293,200	5,764,400	471,200	8.9%
28 - Senior Citizens	331,183	360,650	412,900	376,700	(36,200)	-8.8%
29 - Environmental Health	393,504	360,266	397,400	402,600	5,200	1.3%
30 - MTKA Recreation	588,603	597,386	625,100	636,800	11,700	1.9%
31 - Natural Resources	1,599,335	1,621,734	1,865,800	1,944,200	78,400	4.2%
33 - City Manager	561,395	822,012	838,800	917,600	78,800	9.4%
34 - Human Resources	777,183	909,154	972,200	1,359,000	386,800	39.8%
35 - Contingency & Transfers	-	-	50,000	50,000	-	0.0%
36 - Communications	238,511	233,756	317,300	362,600	45,300	14.3%
Total Departmental Expenditures	$ 36,513,763	$ 39,016,733	$ 43,777,800	$ 46,623,440	$ 2,845,640	6.5%