City Council Agenda Item 14
Meeting of December 5, 2022

Title: Items relating to the 2023 operating budget and levies

1) Public consideration of proposed budget and levies
2) Resolution adopting a budget for the year 2023 and a revised budget for 2022; setting a tax levy for the year 2022, collectible in 2023; and consenting to a special benefit tax levy of the Minnetonka Economic Development Authority
3) Resolution setting a tax levy for the Bassett Creek Watershed Management Tax District for the year 2022, collectible in 2023.

Report From: Darin Nelson, Finance Director

Submitted through: Mike Funk, City Manager
Moranda Dammann, 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

Receive public comment on the proposed budget and levies, and adopt the resolutions.

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

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

Background

The City of Minnetonka follows an open, public process to review and adopt its annual budget. The city continues to welcome and encourage public input on its decisions regarding city services, its budget and property taxes. This meeting has been designated and advertised as the official public meeting to discuss and review the budget and property tax levy.

Each year, the city council reviews preliminary budget proposals in August and November at study sessions that are open to the public, and adopts a preliminary levy in September. Proposed budget and tax information is regularly published in the *Minnetonka Memo* and on the city's website, where a direct link and phone number are provided for comments. In addition, Hennepin County mails individual preliminary tax notices to all property owners in November, which announce the meeting tonight for public discussion.

Historically, all budget or levy related comments received have been included in the agenda packet. To date, staff has received one written comment, which is attached to this report. If any written comments are received just prior to the evening's council meeting, they will be provided as an addendum to this agenda item.

The purposes of this meeting tonight are to provide another opportunity for public input regarding the proposed budget and levies, to make any amendments should they arise due to those comments and to adopt the final 2023 budget and associated tax levies, which must be certified to Hennepin County by Dec. 28, 2022. If substantial changes are needed based on feedback this evening, adoption may be delayed until the council's December 19 meeting.

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 proposed 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.

The original plan for a portion of the ARPA funding was to buy down the General Fund levy by $1 million in 2022 along with $250,000 in both 2023 and 2024. The preliminary 2023 levy modified this approach by combining the levy subsidy from 2023 and 2024 into a one-time subsidy of $500,000 in 2023. This change was done to mitigate the levy increase in 2023 since the difference between the 2022 levy subsidy of $1 million and the 2023 preliminary levy subsidy requires the difference to be levied in the subsequent year to maintain service levels. Supplanting $500,000 versus $750,000 requires a smaller levy increase in the current year but pushes additional burden to future years.

As staff began working through the preparation of the detailed budget, and not knowing what the state of the economy may be next year, the goal became to reduce the levy subsidy for 2023 and beyond, thus reducing the 2024 base levy. The proposed levy subsidy for 2023 is now $250,000 versus the preliminary levy subsidy of $500,000. This reduction will reduce the estimated 2024 base levy by just over 0.5 percent.

Additionally, there has been more discussion within the state legislature about instituting levy limits in coming years. If that comes to fruition for the 2024 tax levy, the city would be impacted less by having a smaller levy subsidy in 2023.

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. That strong fund balance is continuing into 2022, with an anticipated surplus of revenues over expenditures of $1.8 million.

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 44.5 percent at the end of 2023. Additional CIP transfers of $3.875 million are tentatively scheduled for 2024 through 2027.

2023 Budget Initiatives and Influencing Factors

Personnel

The proposed General Fund 2023 budget includes expenditures of $46.9 million, an increase of 7.2 percent or $3.1 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 set at three percent along with a potential market increase, which is dependent upon each position's comparable position in other cities. The proposed budget includes a total wage increase of approximately 3.2 percent or $944,500.

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. The 2023 plan year is not protected with a cap and is increasing 13.1 percent or $568,000. The city and its employees share in the cost of this increase with the city picking up a slightly higher share than the employees.

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 worker classification rates, most notably around public safety employees, the city is anticipating an increase of $350,000.

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 $603,600, 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 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 12.24 percent during this timeframe. 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. Inflation rates seem to be moderating slightly with the October MCI down to 8.01 percent and the CPI down to 7.71 percent. However, these are still elevated inflationary numbers that are having a tangible impact on the city's budget. The 2023 budget has accounted for inflationary increases for certain areas. Still, the overall 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 strong community 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 6.74 percent to maintain city services. This increase includes all the changes mentioned earlier in this report, along with $250,000 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

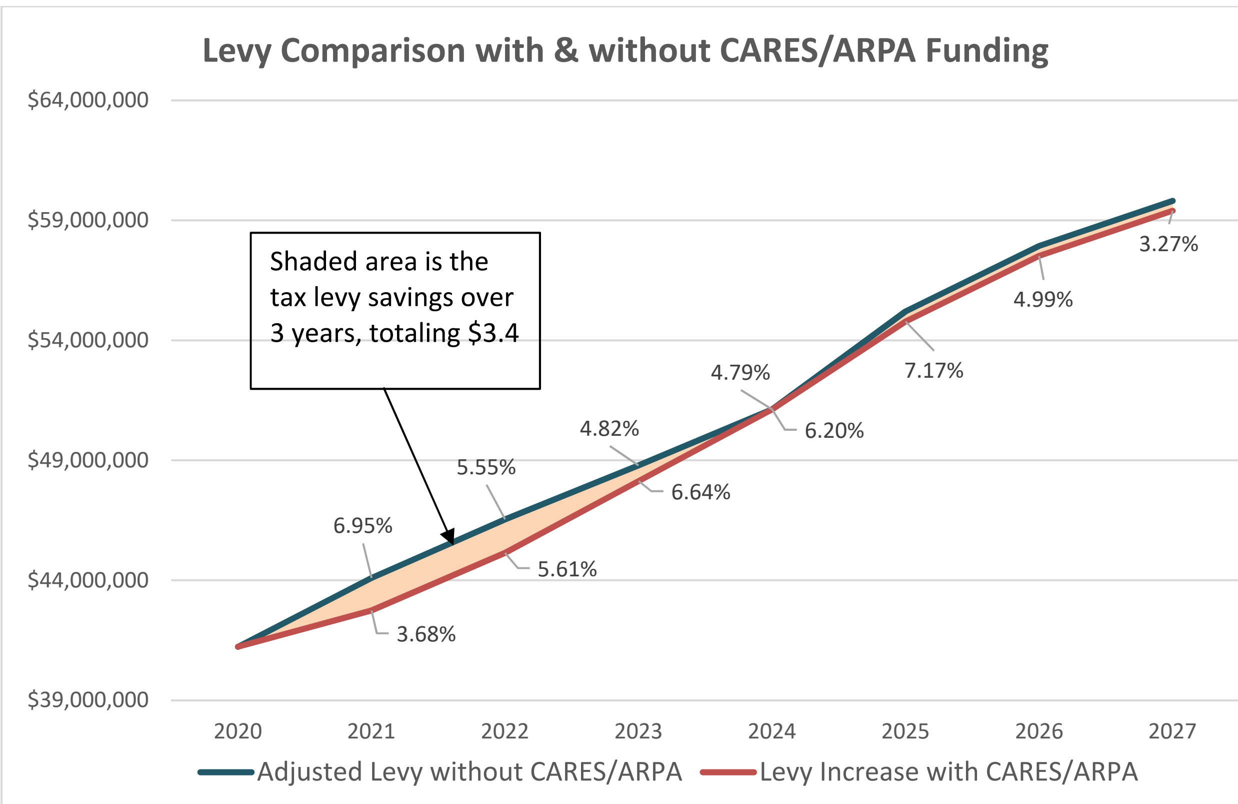
Levy (thousands)	**2022**	**2023**	**Change**
City property taxes, current services	44,815	44,767	-0.1%
Prior Year One-Time Requests		(127)	-0.3%
ARPA Levy Reinstatement		750	1.7%
Staffing COLA		815	1.8%
Workers Comp		323	0.7%
Health Insurance		391	0.9%
Energy Costs		117	0.3%
Fleet Maintenance		93	0.2%
Fuel Costs		184	0.4%
General Liability Insurance		50	0.1%
Other GF Supplies & Services COLA		77	0.2%
New Staffing Requests		602	1.3%
New Requests		200	0.4%
CIP Levy Increases (Decreases)		(407)	-0.9%
Total	***44,815***	***47,835***	***6.7%***
HRA	325	300	-0.1%
Total City Levies	***45,140***	***48,135***	***6.6%***

The 2023 levy includes 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 $3.4 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 4.82 percent, which is lower than the currently requested 6.64 percent. However, the total tax collections under the 6.64 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 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 - $250,000
- 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

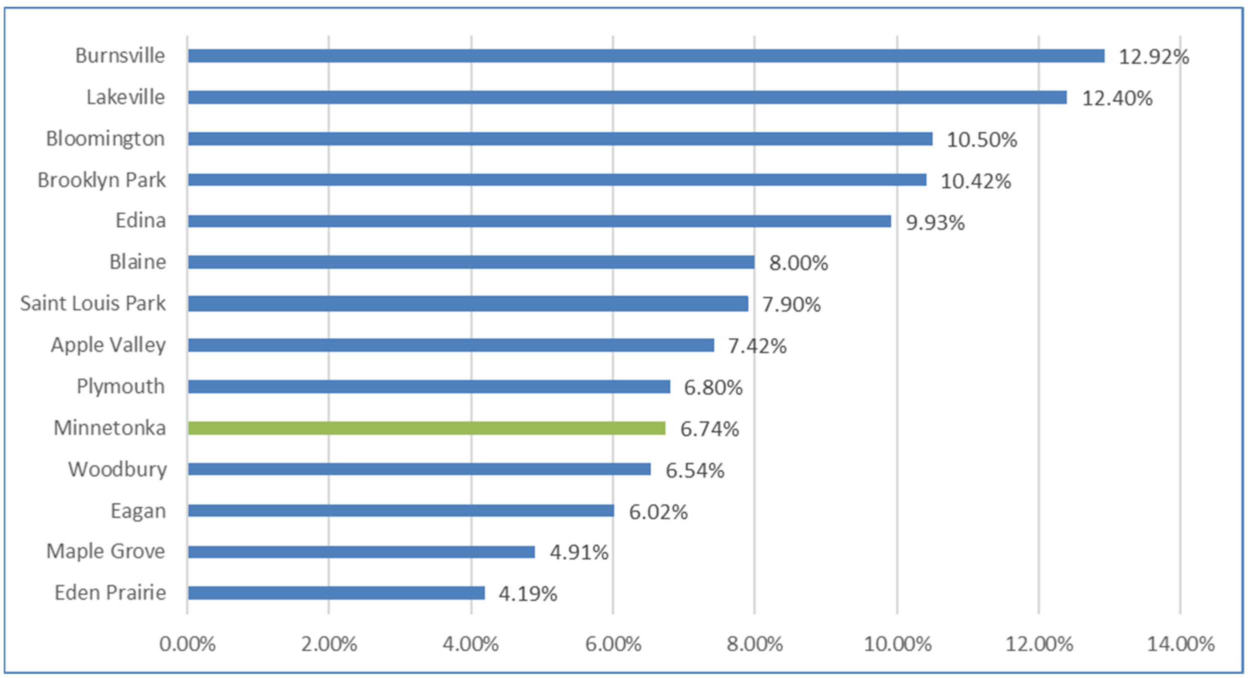
These costs, plus other routine increases related to personnel and other services and charges, increase the estimated 2024 levy to approximately 6.2 percent.

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 preliminary increases and may change between now and when cities formally adopt their final levies. As a reminder, each city is unique and their tax levies can vary for a number of reasons.

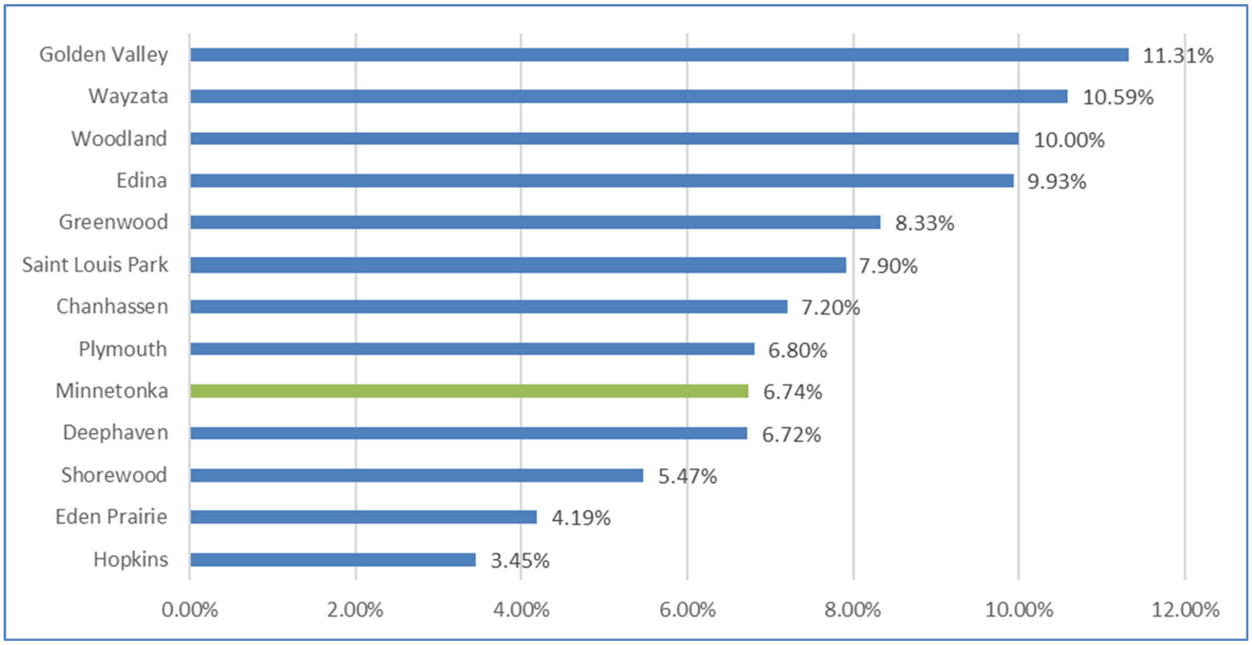
Similar to all our comparable cities except for one, Minnetonka does not and will not receive LGA in 2023. Equally important, unlike many of these other cities, the city does not rely upon special assessments to fund street reconstruction and maintenance.

2023 Preliminary Tax Increases



Minnetonka's proposed levy increase also ranks toward the middle of our contiguous cities.

2023 Preliminary Tax Increases

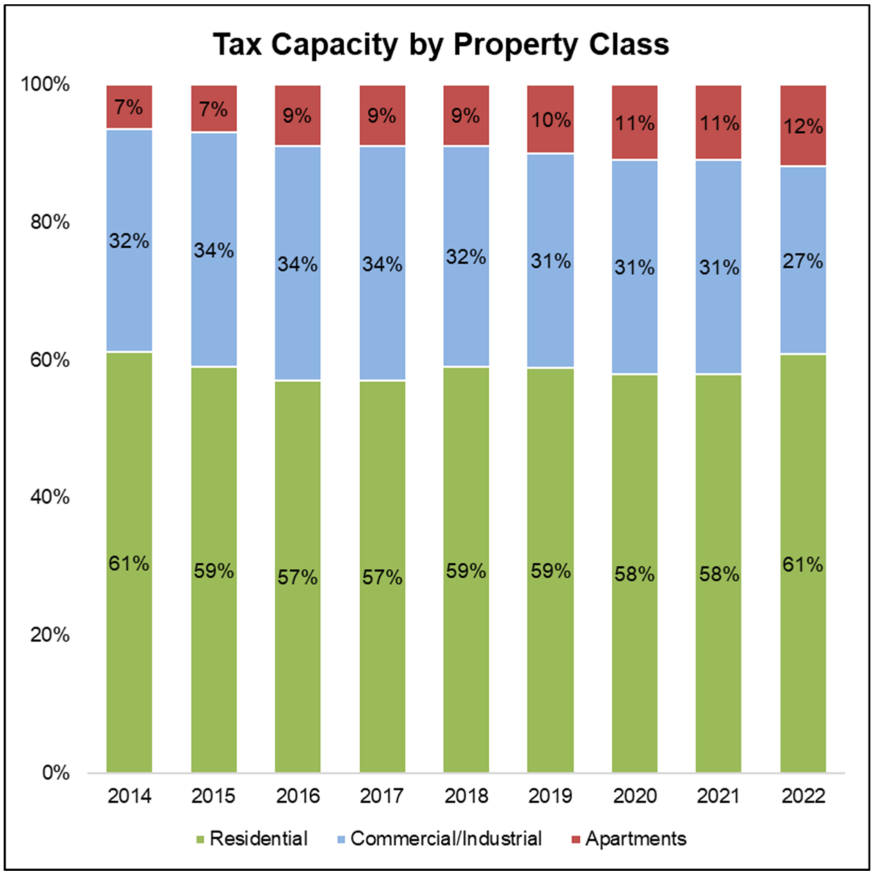


Homeowner Impacts. New development and redevelopment in the city again increased the city's property tax base last year, as reported in March by the city assessor. Over the previous nine years, the city's assessed market value has increased by 58 percent. A portion of that increase results from improved 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 or $97 per year, which equates to a 6.47 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 experienced.

RECOMMENDATION

Staff recommends adoption of the attached resolutions to increase the property tax levy by 6.74 percent to support the 2023 budget and to levy the city's 2023 share of the Bassett Creek Watershed District allocated cost requirements. Adoption of the general levy resolution would also formally accede to the Economic Development Authority's action tonight whereby the HRA levy would decrease by $25,000.

Attachments:
1. Public comments
2. 2023 proposed budget

Resolution No. 2022-

Resolution adopting a budget for the Year 2023, a revised budget for 2022, setting a tax levy for the Year 2022, collectible in 2023, and consenting to a special benefit tax levy of the Minnetonka Economic Development Authority.

Be it resolved by the City Council of the City of Minnetonka, Minnesota, as follows:

Section 1. Background.

1.01. The City Manager has presented to the City Council a proposed 2023 budget and a revised 2022 budget for funds of the City.

Section 2. Authorization

2.01. The City Manager's proposed 2023 budget and the 2022 revised budget are hereby approved and adopted with the official copy being on file with the City Clerk.

2.02. The following sums of money should be levied for the current year, collectible in 2023 upon the taxable property in the City of Minnetonka for the following purposes:

General Fund	$37,147,105
Street Improvement Fund	6,080,000
Capital Replacement Fund	1,385,000
Park & Trail Improvement Fund	425,000
Technology Development Fund	650,000
Forestry Fund	83,000
Public Safety Fund	550,000
Ridgedale Tax Abatement	80,000
Park & Open Space Bonds Debt	284,445
Public Safety Facility Bonds Debt	1,117,929
Total Tax Levy	$47,802,479

2.03. Pursuant to Minn. Stat. Section 469.033, subd. 6, the City Council consents to the Economic Development Authority in and for the City of Minnetonka (the "EDA") levying a special benefit tax levy in the amount requested by the Board of Commissioners of the EDA by resolution adopted on the date hereof.

Adopted by the City Council of the City of Minnetonka, Minnesota on Dec. 5, 2022.

____

Brad Wiersum, Mayor

ATTEST:

____
Becky Koosman, City Clerk

ACTION ON THIS RESOLUTION:

Motion for adoption:
Seconded by:
Voted in favor of:
Voted against:
Abstained:
Absent:
Resolution was adopted.

I hereby certify that the foregoing is a true and correct copy of a resolution adopted by the City Council of the City of Minnetonka, Minnesota, at a meeting held on December 5, 2022.

____
Becky Koosman, City Clerk

Resolution No. 2022-

Resolution setting a tax levy in the Bassett Creek Watershed Management Tax District for the Year 2022, collectible in 2023

Be it resolved by the City Council of the City of Minnetonka, Minnesota, as follows:

Section 1. Background.

1.01. On May 4, 1987, the City Council adopted an ordinance creating the Bassett Creek Watershed Management Tax District.

1.02. Taxes levied in this district are for the purpose of paying the City's share of the Bassett Creek Watershed Management Commission's costs.

1.03. The City's share of those costs for 2023 is $32,895.

Section 2. Findings.

2.01. The amount of $32,895 should be levied for the current year, collectible in 2023 upon all the taxable property in the Bassett Creek Watershed Management Tax District in the City of Minnetonka for the purpose of paying the costs of the Bassett Creek Watershed Management Commission.

Section 3. Authorization.

3.01. The tax levy of $32,895 the Bassett Creek Watershed Management District is hereby approved.

3.02. The City Clerk is hereby directed and ordered to transmit a certified copy of this resolution to the Hennepin County, Minnesota Auditor.

Adopted by the City Council of the City of Minnetonka, Minnesota on Dec. 5, 2022.

____

Brad Wiersum, Mayor

ATTEST:

____

Becky Koosman, City Clerk

ACTION ON THIS RESOLUTION:

Motion for adoption:
Seconded by:
Voted in favor of:
Voted against:
Abstained:
Absent:
Resolution was adopted.

I hereby certify that the foregoing is a true and correct copy of a resolution adopted by the City Council of the City of Minnetonka, Minnesota, at a meeting held on December 5, 2022.

____
Becky Koosman, City Clerk