Agenda

City of Minnetonka

Study Session

Monday, Aug. 19, 2019

6:30 p.m.

New Minnehaha Room (Formally known as the Purgatory Creek Room)

Community Center

---

1. Report from the City Manager
2. 2020 preliminary budget review
3. Adjournment

The purpose of a study session is to allow the city council to discuss matters informally and in greater detail than permitted at formal council meetings. While all meetings of the council are open to the public, study session discussions are generally limited to the council, staff and consultants.

City Council Study Session Item #2
Meeting of August 19, 2019

Brief Description: 2020 preliminary budget review

Recommended Action: Provide direction on key issues and preliminary levy

We are pleased to propose to the city council a 2020 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 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 city services. The recommendations are built using long-term forecasts including a conservative eye to changes in the national economy and technology.

As outlined in this report, staff recommends ***increasing the preliminary city levy for 2020 by 7.5 percent***. Also adopted in June by the council, the Economic Improvement Program (EIP) indicates a ***$75,000 levy decrease for HRA (Housing and Redevelopment Authority) supported programs.*** (Note that the city's tax levy is local property tax revenue, which is calculated by subtracting all non-property tax revenue from the total proposed budget.)

The city's proposed levy increase of 7.5 percent is likely to place Minnetonka in the upper middle of the levy increases of our group of similar metro cities, a number of which are facing similar challenges. While several of our comparable cities began to receive Local Government Aid in 2014, Minnetonka will continue to <u>not</u> receive this state financial support in 2020.

OUR PUBLIC PROCESS

The purpose of this study session is to review key budget issues and provide direction on the 2020 preliminary tax levy and city budget, which the city council must set and certify to the county by September 30, 2019 as required by state law. The city calendar currently provides for the council to adopt its preliminary levies on September 16. This is the maximum amount the city can levy for 2020.

This initial budget study session focuses on the bigger picture. Guided by these discussions, detailed budget requests will be reviewed in November and the final budget adopted in December. At the November 25 study session, staff will have more complete information regarding revenues and expenses for the current year, along with any additional information available to forecast 2020. The final 2020 levy 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 2, residents and businesses will again have the opportunity to provide feedback via multiple avenues, all of which are publicized on the city's website and 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.

ENSURING MINNETONKA'S POSITION OF FISCAL RESPONSIBILITY

As detailed in the city's Strategic Profile, the City of Minnetonka takes a responsible, long-term perspective with financial planning and management. Decisions are made with the future in mind to ensure the city's ongoing ability to provide quality services at a reasonable price. The recent reaffirmation of the city's Aaa bond rating by Moody's reflects this responsible approach.

General Fund (GF) Financial Projections

As a part of general best practices in budgeting, staff looks closely at both a forecast for the remainder of this year's revenues and expenses, those for 2020, as well as those projected for the future five years through 2024. Staff aligns the General Fund (GF) revenues and cost predictions along the adopted five years of the Capital Improvements Program (CIP), which is also heavily dependent upon property tax revenues. This long-range perspective is instrumental in developing recommendations and making decisions for the next year's budget and property tax levy.

Current revenues. 2019 GF revenues are presently estimated to come in approximate to the adopted budget. While *investment interest continues to be improving,* the city continues to realize *lower public safety fine revenue* than had been forecasted based on recent historical averages. *Recreational receipts and community center rental revenue are expected to meet projections*. *Permit and licensing revenues are currently trending slightly below forecasts*. However, as commonly occurs, the timing of some construction projects (e.g. the Hennepin County Medical Examiner's building, the condos at Legacy Oaks, and the Nissan dealership redevelopment) may result in larger proceeds later in the year that offset an otherwise small loss in the city's General Fund bottom-line at the close of 2019.

Current spending. GF operating costs in 2019 are *currently estimated to be slightly less than last year*. If spending continues at the rate experienced up to the end of last month (July), less of the budget will be spent by the end of this year than last year, and departments will have spent 96.3 percent of their budgets, compared to 97.2 percent last year. At the current rate, almost $1.24 million of the GF budget would remain on the bottom-line at the end of 2019, compared to $950,000 at the end of 2018. Most importantly, there still remains 2019 costs that cannot be known at this time, such as the number of snow plow events in early winter.

Fund balance. The City of Minnetonka adopts a balanced GF operating budget each year whereby revenue is equal to expenditures. With adoption of the annual budget, the city council also affirms and/or amends the first year of the adopted CIP, which may include transfers from the GF fund balance to capital funds for planned costs. After revenue and spending balances are known, net change to the GF fund balance for 2018 compared to 2019 are projected here:

($ thousands)	2018 Actual	2019 Projected
Excess revenues	$1,941	$0
Remaining expenditure budgets	950	1,240
Capital transfers (CIP)	(1,330)	(2,750)
Net change GF fund balance	***$1,774***	***($1,510)***

A projected decrease in fund balance in 2019 was previously planned, and the council-adopted 2020-2024 CIP anticipated it. In fact, the decrease forecasted above is less than the earlier projection.

Due to some uncertainties, timing of the previously mentioned permit revenues may portend changes in these projections at the end of 2019. Any potential “excess revenues” may be either transferred from the General Fund balance for one-time costs within the city’s 2021-2025 CIP to “smooth out” future needed tax levy increases or to ensure the fund balance can remain at sufficient levels over the next five years to meet council policy. The next CIP will be discussed by the council next spring, and as we approach the council’s second detailed budget study session in November, additional information may adjust some of these current forecasts.

Revenue projections. Because permit revenue is the city’s second greatest source of GF revenue after property taxes, it can significantly impact the city’s budget and levy needs. While generally using historical trends to forecast revenue over the next five-year period, staff analyzes current development projects planned and in progress as the basis for next year’s revenue forecast of permit revenue. Therefore, the long-term revenue forecast responsibly assumes the current economic environment will not continue beyond 2020, and staff uses a ten-year average of actual revenues prior to 2018 as the basis for permit revenues beginning 2021.

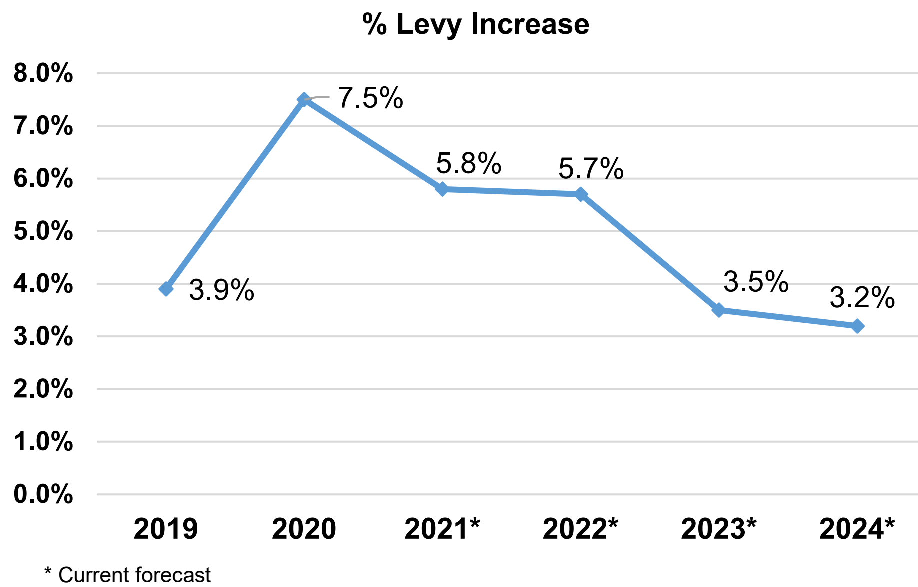
As a result of these projections, the city is likely to experience a decrease in permit revenues in 2021, and that level is projected to remain relatively flat the following few years. This will add pressure to the property tax levy to financially maintain the city’s current level services, particularly in 2021 and 2022, including any additionally projected costs after 2020.

Expenditure projections. With the remainder of this report focused upon the budget and levy recommendations for 2020, staff was careful also to project for over the following four years additional new ongoing operating costs that are anticipated due to projects and programs already approved and in the pipe line and future costs that are likely due to known service pressures. Some of these projected increased costs are rolled out over more than one year, and the most significant of these roughly estimated costs and their dates of rollout include:

- police body camera and squad camera administration/staffing and related technology service agreements (primarily 2021);
- energy costs and janitorial requirements for the proposed new and expanded public safety facilities (2021, 2022);
- communication staffing (2022); and
- public works maintenance of new trails, sidewalks and related landscaping in the adopted CIP (2023).

Staff assumes current staffing levels and makes very rough estimates on salary and inflationary pressures across the five years using current union contracts and the information known about contracts in other comparable cities in the metro. And, although it is self-supporting, the city will be required to increase the levy for the Ridgedale tax abatement each year.

As a result of this analysis, staff currently projects that the property tax levy would require the following increases over the next five years, with diminishing pressure on the later years. In addition, it is strategically important to note that in 2023, the currently scheduled decertification of the city's largest Tax Increment Finance (TIF) district will significantly boost the city's tax base and thereby buffer property tax payers from new levy increases.



These overall projected levy impacts have informed staff budget recommendations for 2020 and some recommendations for amending the currently adopted CIP.

Projected levy increases in years 2021 thru 2024 are heavily based upon the city's adopted CIP, which will be reevaluated and amended with capital budget deliberations this spring. Also, between now and the second council study session on the 2020 budget in November, any new data either unanticipated or not currently available will allow staff to further analyze 2019 and 2020 service cost projections and new or changed revenues. For example, additional grants may become available or, per regular procedures, the CIP budget may be amended with levy and budget adoption in December to reflect more accurate capital project cost projections and/or altered plans and priorities relative to new information.

2020 BUDGET

Three-quarters of the city's General Fund operating expenses is the cost of its greatest assets, its workers, and as discussed with council at a previous closed council meeting regarding labor negotiations, the predominant funding issue in 2020 is ensuring a competitive wage structure across the organization. In order to meet this mandate, staff proposes the 2020 General Fund city operating budget total $39.4 million. This total, financed with multiple sources of revenue, is

9.3 percent greater than the 2019 adopted budget, and the proposed competitive wage structure change is by far the driving factor behind the recommended increase.

Except for only one additional position needed to ensure appropriate maintenance of the city's expanding trails and parks, no additional positions are proposed. Other proposed cost increases ensure current city services in light of funding stream changes, annualized costs for full staffing of the current complement of paid-on-call firefighters, and previously discussed programming changes. The proposed additional spending will be more fully outlined in the remainder of this report.

A competitive compensation structure

For many years, the City of Minnetonka has structured compensation for both its union (via unit-bargained contracts) and non-union employees by reviewing all positions using a market philosophy to ensure that employees are fairly and competitively compensated compared with what other comparable cities pay their employees with similar responsibilities. Generally, each position is ensured a minimum base salary increase to which a market increase is added only if the analysis proves that the market rate for the position is greater than the sum of the current rate and base increase. The market rate has been defined as the average of actual salaries paid by our comparable cities to their current incumbents of every similar position during the prior fiscal year.

As staff discussed with the city council in April, although this definition of the market rate has historically seemed to serve the city well, during the past three years of this extremely tight labor market and historically low unemployment, the city has repeatedly experienced losing both employees and employee candidates to higher paying competitive cities.

Staff has regularly found that the comparison data has been very difficult to get, and sometimes data points cannot be obtained, leaving an incomplete, untrue picture of the market. Additionally, wage comparisons using actual incumbents in any specific position suffer swings from year to year related to turnover in the other cities.

The 2020 proposed budget incorporates restructuring the definition of market rate and continuing to use the city's current base-plus-market methodology. As provided in the most recently bargained union agreement, the new market rate maximum is the median of comparable-cities' prior year maximum pay step for each position. Such data is far more easily available for comparable city staff to share, and it is not dependent upon the tenure of the current employees in the other cities.

As applied in the most recently bargained contract, the proposed 2020 budget uses a 2.0 percent base salary increase. Staff obtained and analyzed comparable city pay ranges using the new market definition, and the data clearly indicates the city has fallen significantly behind the competition. As a result, market wage pressures on the City of Minnetonka will require a greater increase than typical in total compensation costs (base plus market) in 2020. The city's other two labor contracts will expire at the end of 2020 and will be up for negotiation.

Additionally, as a member of the LOGIS *Healthcare* Consortium, a guaranteed rate cap for 2020 has been negotiated and is not to exceed a 14 percent increase for health insurance premiums.

Since the city structures its benefits package using a cafeteria contribution system, premium costs are borne by both the city and its employees who enroll in the city's benefit offerings.

Using this information, an employer benefit contribution increase has been estimated based upon the insurance package selected. Our management approach will continue to reinforce the philosophy of moving from an equitable to an affordable benefits package for employees, in an effort to attract and retain personnel.

As mentioned earlier in this report, staff already forecasts very rough estimates on wage cost pressures in future years using current union contracts and the information known about contracts in other comparable cities in the metro. Without the proposed compensation structure change, a 3.7 percent increase in the levy associated wage and benefit adjustments was already contemplated. The proposed compensation structure change would increase that levy impact another 2.8 percent to 6.5 percent.

Discussion Question:

- ***Does the city council support the proposed costs for recruitment and retention of the city's workforce through competitive market wages to maintain the city's current level services?***

Cable Television Fund, communication services

In exchange for use of the city's rights-of-way for cable television purposes and as permitted under federal law, the City of Minnetonka first negotiated a franchise agreement in the early 1980s with what is now Comcast (Xfinity). A second franchise agreement was negotiated with CenturyLink in 2016; however, they did not move forward with their Prism product. Fees from the current iteration of the Comcast agreement with the city are established within the latest contract. The fees support the city's Cable Television Fund, which the city relies upon for its communications both with the community and within the city's organization.

The fund finances numerous activities and events to inform and educate the public and city employees as well as to strengthen residents' sense of community. Expenses include broadcast of public meetings and special events; publication of the *Minnetonka Memo*; upkeep of the city's website and intranet; and hosting city events for residents such as Summer Festival, Burwell House Festival, Farmers Market and the City Open House. Fiber for the city's technology infrastructure is also budgeted in this fund.

Over the last decade, staff has kept apprised of federal legislation introduced to restrict or eliminate the city's local control of its rights-of-way, which would likely do away with this franchise fee revenue source. Noteworthy, Federal Communications Commission (FCC) rules just recently adopted are expected to reduce the amount of franchise fees collected. Responsibly, the city has budgeted a special reserve in the Cable Television Fund specifically as a safeguard to ensure a smoother transition when fee reductions or elimination come to fruition.

Although the specific legislation has not yet been passed by Congress, regulatory decisions and changes in technology nonetheless appear to be significantly eroding the fee revenue. As more cable customers are moving away from cable to wi-fi streaming services, the franchise fee revenue is dropping, because it is specifically tied to the number of cable customers in Minnetonka.

2018 was the first year in its history that the total annual fee revenue was below the prior year; it fell from nearly $870,000 in 2017 to $814,000 in 2018, a nearly 6.5 percent drop. The first two quarters of 2019 indicate that the precipitous decline is continuing with a nearly 5 percent drop in quarterly returns this year compared to the last quarter of 2018. At the current rate, expenditures will exceed revenues by around $125,000 in 2019, and using the forecasted expenses in 2020, they would exceed revenues by another approximately $160,000 in 2020.

Although there continues to exist a current fund balance and a reserve in the Cable Television Fund to withstand a few years of this increasing structural deficit, staff recommends continuing to plan for the long term by moving the personnel costs presently supported by the fund to instead be supported by the General Fund.

Currently the entire costs (wages and benefits) of two communications positions, plus a portion of the costs of an IT and an administrative position, are funded by the Cable Television Fund. As proposed, these positions would instead be supported by the General Fund. Also, staff recommends moving the annual subscription costs of the city's emergency management telephone callout system, Everbridge, to be supported by the General Fund as well. The total funding change would move $350,100 for these imperative current services to a more stable source of support.

Discussion Question:

- ***Does the city council support the proposed transfer of costs for noted communications, IT and administration staff from the Cable Television Fund to the General Fund to manage long-term revenue declines and thereby maintain the city's current level services?***

Fire services

The Minnetonka fire department serves our community using a predominately part-time/paid-on-call (POC) staffing structure. Analysis has shown this is a significantly cost effective method to provide the essential city function while meeting demands for quality services. The fire department duty crew is staffed with 4-5 members on a continuous basis while the remainder of needed personnel are on call and respond to emergency calls for service on an on-demand basis. Over the past several years, the city has continued to study and adjust its management of the function to maintain this structure within the context of changing service demands, demographics and shifts in cultural workstyles.

This year the fire department has experienced higher demand for "call backs" (paging off-duty firefighters to respond to calls), and for the first time in recent history, the department has maintained full POC staffing for most duty crew shifts. These more ideal staffing levels will result in higher than anticipated costs for part-time wages. In 2019, the additional $160,000 needed to cover these added costs will be mostly offset by position vacancies due to delay in filling fulltime staffing. The proposed 2020 budget includes an additional $170,000 in part-time compensation to maintain these current level services.

On a closely related note, the fire department has applied for the SAFER (Staffing for Adequate Fire and Emergency Response) grant that will assist the city in the costs associated with recruitment, retention, screening and equipping new firefighters. The requested amount from this federal grant program is $248,000 over a four-year period. Since 2014, the city has hired and trained 49 POC firefighters in order to maintain the fire department's authorized strength of 80 firefighters. If awarded, this grant will help alleviate some of the burdens of ongoing recruiting and training while also assisting the city with a robust marketing plan to attract POC firefighter candidates as positions become vacant.

Finally, when the city council discussed and approved an increase in the traditional pension for the Minnetonka Firefighters Relief Association at its July 22, 2019 meeting, the council signaled support for a staff-recommended increase in the annual budget to a reserve that will help buffer this important benefit during downturns in the economy. The recommended 2020 General Fund budget includes an additional $50,000 added to the current $25,000 for a total of $75,000 that continues to be set aside annually to accumulate in the special assigned reserve in the General Fund balance for these specific purposes.

Police services

Law enforcement agencies across the nation are being challenged by the increasing number of calls for service involving people with mental illnesses. These calls are often complex and time-consuming for officers, reducing the amount of time they have to address other public safety concerns. They can also lead to dangerous situations for both officers and civilians. Minnetonka is not immune from these challenges, and calls have increased 38.5 percent in the past five years (from 226 in 2014 to 313 in 2018). In an attempt to address the increased demand for services and to improve the quality of care provided on mental illness related calls, the police department developed two initiatives.

First, in 2017 the police department partnered with two metro university professors and assisted in the development of a crisis response training program. The police department piloted the program and continues to participate in on-going research into its effectiveness. Although it is too soon to correlate the program with results, in 2018 the police department experienced a 23 percent decrease in mental illness related calls and a 36 percent decrease in similar repeat calls for service.

Second, the police department recently partnered with the Plymouth Police Department and developed the Case Assessment Management Program (CAMP), a formal aftercare program that will provide additional support to those in crisis. CAMP will complete follow-up in coordination with case management services delivered by Hennepin County Human Services and local service providers including Vail Place and Relate Counseling. As part of this partnership, the police department entered into a two-year agreement with Hennepin County Human Services to provide an embedded fulltime social worker within the Plymouth and Minnetonka Police Departments. The social worker will split time equally between Plymouth and Minnetonka.

Each city will provide 30 percent of the annual cost for a senior social worker, which is $30,750 for each city per year. The police department is pursuing several grant opportunities, including federal Department of Justice (DOJ) grants and various other local grant opportunities. In 2019, the police department received $15,000 from Minnetonka Family Collaborative to support the program. The police department also applied for a federal DOJ grant in the amount of $100,000 to be shared with the Plymouth Police Department over a two-year period. If awarded, this would provide $25,000 per year to Minnetonka toward the costs of this joint effort.

Wayzata health inspection contract

The environmental health division of community development operates with 3.5 full-time equivalent (FTE) employees to cover 627 licenses in Minnetonka. This staff also inspects 148 facilities in Wayzata under a joint agreement. Unfortunately, the Minnesota Food Code effective January 2019 has caused a significant increase in time required for inspection reporting and time needed for the actual inspections. Compounding this issue in 2019, the division manager's position has taken on additional responsibilities in the building division to compensate for additional supervisory duties and workload issues in that division. These two factors have caused the city to reconsider the provision of contractual services to the City of Wayzata. Therefore, staff recommends cancelling the contract with Wayzata beginning in 2020, which would decrease annual revenues to support these vital city services by $35,000.

Discussion Question:

> ***Does the city council support recommended public safety funding requests for fire and police and a revenue reduction for health inspections?***

Parks and trails maintenance

In response to resident demand for greater and safer pedestrian and bicycle infrastructure, the adopted Capital Improvement Plans (CIPs) in the last two years have included significant planned expansion of the city's sidewalks and trails system over the next five years and into the future. Work is being completed along Plymouth Road north of Minnetonka Boulevard and work has begun on the adopted plan for substantial trail improvements surrounding Ridgedale Mall as well as a new park in the area. Further, the next major trail segment of Excelsior Boulevard is in plan development and the Opus area is beginning to transition to greater residential units, thereby increasing a need for higher priority sidewalk plowing.

As the city is expanding its trail and sidewalk systems, there are increasing demands by our community for quicker priority city maintenance in these new areas, including during the winter months. Therefore, as discussed throughout the adoption of these plans, the 2020 proposed budget for trail maintenance includes the first in a couple of sequential, longer-term increases to city staffing. Staff recommends the addition of one public services worker beginning in July 2020 at a cost of $48,700. Currently, a second additional position is planned in 2023. In the summer months, these positions would assist in the long list of duties for trail, park and playground maintenance.

Discussion Question:

- ***Does the city council support funding for the additional position beginning in 2020 related to parks and trail maintenance?***

Sustainability efforts

The City of Minnetonka has a long-held philosophy of environmental protection and community sustainability that is reflected in the city's strategic profile, comprehensive plan, ordinances, policies, capital improvement planning, and a wide range of programs. Decades long commitments in these areas have continued to make Minnetonka a community of choice and to attain incredible resident retention. In the past number of years, that commitment has continued to evolve and shape the future of the city's sustainability efforts. Some of the programs the city now invests in are: Green Step Cities, the Regional Indicators Project, B3 Benchmarking, SolSmart, subscriptions in solar gardens, Home Energy Squad, Solar Twin Cities, and the continuously popular annual Tree Sale. The manner in which the city conducts its everyday work shows that sustainability permeates every part of the organization.

Most recently, the city council provided direction to further the city's efforts by participating in Xcel Energy's Partners in Energy program, which is an effort to develop a clean energy plan. As shared in the council's June 17, 2019 study session, this work requires additional staff time in the planning division of community development. The cost is $50,000 to backfill a half-time position in this area. The cost will be realized across two fiscal years, $30,000 in 2019 and $15,000 in 2020, and the budgets will need to be amended to reflect these amounts.

Discussion Question:

- ***Does the city council support funding in 2019 and 2020 to allow for city participation in the Partners in Energy program?***

Inflationary cost pressures

While general inflation (CDI-U) for the Twin Cities area was 2.3 percent at the end of May, the national Municipal Cost Index, which incorporates a basket of goods consumed by local governments, averaged 1.78 percent year-over-year during the first five months of 2019. Based on this information and that received so far from our suppliers, the proposed 2020 budget incorporates 1.75 percent inflation to supplies and services other than those from our information technology services consortium, LOGIS.

The City of Minnetonka is a member of the LOGIS (Local Government Information Systems) consortium, which has served to significantly reduce the city's technology costs through joint purchasing since the city joined during the 1970s. Because the joint powers agency projects significant cost pressures for compensation and service demands, it anticipates adopting a greater than nine percent increase in charges to its 52 government agency members for next fiscal year. For the General Fund operating budget, the nine percent increase translates to an additional $60,200 for LOGIS technology costs in 2020.

CIP Amendments

Public safety facility. The unusually tight construction labor market and acute limitation of building supplies in the current economy continues to severely impact financial planning for construction of the city's new fire station and expanded police facility. Current cost estimates were still being developed by our contracted construction manager for the project, Kraus Anderson, at the time of writing this council letter. For the purposes of establishing a preliminary levy, staff recommends a levy increase of 0.6 percent, which incorporates current bonding debt service estimates for a $25 million project, which is less than originally forecast due to the delay in selling the bonds, changes in the bond market and a small contingency for current market and construction unknowns. As previously discussed, the new debt service is mostly offset by the scheduled 2020 payoff of the larger of the city's two remaining open space park bonds. At the budget study session this evening, staff will provide to council updated information that is expected to become available after drafting this report.

General Fund Transfers. In addition to operating cost increases, staff will recommend amending the 2020-2024 capital budget by transferring additional General Fund balance to the Street Improvement Fund. An additional $500,000 transferred to the Street Improvement Fund in both years 2021 and 2022 will allow the property levy increase required by the approved CIP in those years to be reduced. The additional funding made available at the end of 2018 due to greater-than-projected permit revenues and less than budgeted spending as well as current estimates for 2019, provide that the fund balance would remain above the benchmark requirement of forty percent of the forecasted next year's operating budget.

HRA LEVY

The city's first levy for housing and redevelopment began in 2009. State law limits levies, and the maximum rate is 0.0285 percent of a city's taxable market value. This equals approximately $2.7 million in Minnetonka in 2019. Beginning in 2010, the annual levy was $175,000 (0.00212 percent). The levy remained at that dollar level until 2017 to accommodate village center master planning, housing programs, marketing efforts, and more recently light rail. In 2018, the levy was increased to $250,000, and in 2019, it was increased to $300,000.

On June 3, the city council adopted the 2020–2024 Economic Improvement Program (EIP), which sets the 2020 HRA levy at $225,000 (down from its 2019 level of $300,000) ***and results in a $75,000 levy decrease for HRA-supported programs.*** The indicated uses of the funds are: SW Light Rail ($75,000); WHAHLT or Homes within Reach ($25,000); Housing Programs ($100,000); and Business Outreach ($25,000). The light rail funds are set aside for a ten-year payback to the city's Special Assessment Construction Fund for a portion of the city's commitment to the project. The Economic Development Advisory Commission (EDAC) will review the HRA budget at its September 12 meeting.

Discussion Question:

- ***Does the city council reaffirm that $225,000 should be certified as the HRA preliminary levy for 2020?***

2020 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 2019 survey, 82 percent of those who stated an opinion favored such an increase.

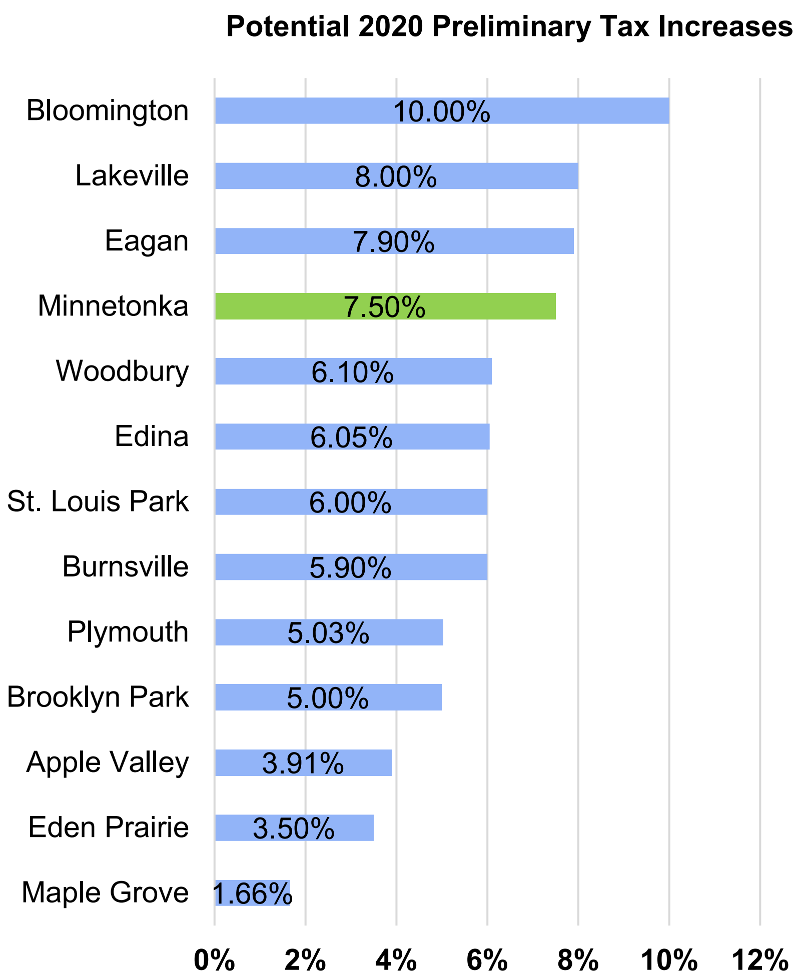
The 2020 proposed operating and adopted capital budgets would require an overall increase in the city property tax levy of 7.5 percent primarily to maintain city services. The largest increase is associated with the previously described compensation structure change that would alone require a 6.5 percent increase.

A 1.2 percent increase would be required to maintain other specific current services including costs to fully fund the current complement of POC firefighters, raise the budgeted annual contribution to the POC firefighter association pension, offset the loss of contract revenue for Wayzata health inspections and fund a second partial year to temporarily backfill planning staff who will work on the city's sustainability effort.

Another 0.9 percent is required to change the funding support for staff currently covered by diminishing cable franchise fee revenue. A 1.9 percent decrease associated with the adopted CIP will offset some of the proposed increases. Although appearing separately on property tax statements, the HRA levy would decrease by $75,000, which would virtually equate to a 0.25 percent decrease in the city's overall property tax levy impact.

Levy (thousands)	**2019**	**2020**	**Change**
City property taxes, current services	$38,355	$38,801	1.2%
Competitive compensation		2,507	6.5%
Cable franchise backfill funding		350	0.9%
Parks & trails maintenance		49	0.1%
Capital program change, adopted		(715)	(1.9)%
Subtotal	***38,355***	***40,992***	***6.9%***
Public safety facility		1,355	3.5%
Open space bond debt paid off		(1,105)	(2.9)%
Total	***$38,355***	***$41,242***	***7.5%***
HRA	$300	$225	

Comparisons with Other Cities. The proposed 2020 city levy increase is likely to place Minnetonka at the upper middle of comparable cities. Anecdotally, a number of the other cities are working on similar compensation issues. Similar to last year, a number of the larger differences amongst these communities, particularly at the high and low end of the range, appear to be related to whether the city is adding staff and whether those new costs may be offset with permit revenue increases or debt retirement.



Further, two of the comparable cities shown, St. Louis Park and Brooklyn Park, continue to receive an allocation of state Local Government Aid (LGA), which began in 2014. As has been the case for over a decade, Minnetonka does not and will not receive LGA in 2020. Equally important, unlike many of these other cities, the city does not rely upon special assessments to fund street reconstruction and maintenance.

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 last seven years, the city's assessed market value has increased by 36 percent. A portion of that increase is the result of actual improved real estate as opposed to market forces alone.

Like last year, the commercial proportion of the city's tax base increased at a relatively less hardy pace as compared to residential and apartment properties. For taxes payable in 2020, the commercial property base experienced only a 2.6% growth increase compared to single family homes at 4.8 percent and apartment properties at 7.0 percent. This will cause a smaller shift in the property tax burden away from commercial (nearly one-third of the city's tax base) to residential (59 percent of the tax base) and apartments (ten percent of the tax base).

Although there continue to be some very significant real estate improvements currently under or near construction (e.g. the two Ridgedale-adjacent apartment developments, Marsh Run, RiZe, and Dominium), many of those will not add to the property tax base until after payable 2020.

Calculating the impact of changes in property taxes to 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. Staff is hopeful the final piece of this information to provide projected impacts upon our property owners will be available from the county by the evening of this first budget study session.

Discussion Question:

- ***Does the council agree that $41,242,077, including $65,000 for the self-funded Ridgedale Mall tax abatement (overall 7.5 percent increase) should be certified as the city's preliminary general levy for 2020?***

SUMMARY

Responsible long-term financial planning has continued to position the City of Minnetonka to provide highly rated services to city residents and businesses. The 2020 preliminary city tax levy will be limited to an increase of 7.5 percent to maintain city services as clearly supported by a significant majority of our taxpayers and appropriately care for the city's expanding parks and trails. It ensures our position of fiscal responsibility, preserves our standards of excellence, and encourages innovative and creative thinking. The HRA levy would be reduced by $75,000 and thereby diminish the overall increase in taxes under the city's jurisdiction.

As always, the City of Minnetonka will continue to provide the excellent services our residents and businesses have come to expect, and at a reasonable price, both in 2020 and well into the future.

Originated by:
Geralyn Barone, City Manager
Merrill King, Finance Director