

City Council Agenda Item #14E
Meeting of Sept. 17, 2018

Brief Description: Items related to the 2019 preliminary tax levy

- 1) Resolution setting a preliminary 2018 tax levy and preliminary 2018 HRA levy, collectible in 2019, and a preliminary 2019 budget, and consenting to a special benefit tax levy of the Minnetonka Economic Development Authority
- 2) Resolution setting preliminary 2018 tax levy, collectible in 2019, for the Bassett Creek Watershed Management Tax District

Recommended Action: Adopt the resolutions

As discussed at the city council's August 20 study session, the proposed 2019 levy and budget are consistent with our strategic goals and community values. Within that framework, the budget recommended is forward looking; aligns with long-term forecasts of service requirements associated with the city's strong development activity, operating costs for facilities currently being planned, adopted program enhancements and a conservative eye to future changes in the national economy.

As outlined in this report, staff recommends increasing the preliminary city levy for 2019 by 3.8 percent. Also the Economic Improvement Program (EIP) adopted by the city council in June and adopted recommendations of the Economic Development Advisory Commission (EDAC) indicate a 0.1 percent levy increase for HRA supported programs.

Staff estimates that the impact of this proposed property tax increase on a median-value home in the city would be approximately \$53, a 4.4 percent increase. The city's total proposed levy increase of 3.9 percent is likely to place Minnetonka at the lower end of our group of similar cities in the metro. While several of our comparable cities began to receive Local Government Aid in 2014, Minnetonka will continue to not receive this state financial support in 2019.

This is an exciting time for the city, with increasing vitality and vibrancy spurred on by redevelopment and expanding park and trail amenities. The 2019 budget proposal proactively and responsibly ensures quality city service levels keep pace with these dynamic community enhancements.

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, 2018. This is the maximum amount the city can levy for 2019. 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 review in November and final adoption in December. At the November 19 study session, staff will have more complete information regarding revenues and expenses for the

current year, along with any additional information available to forecast 2019. The final 2019 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 3, residents and businesses will again have the opportunity to provide feedback via the city's website, www.eminnetonka.com, 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.

ENSURING MINNETONKA'S POSITION OF FISCAL RESPONSIBILITY

As detailed in the city's adopted 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 2019 as well as those projected for the future five years through 2023. Staff aligns the General Fund (GF) revenues and costs predictions along the adopted five years of the Capital Improvements Budget (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. 2018 GF revenues are presently estimated to come in approximate to the adopted budget. While investment interest is 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 to meet forecasts as well. However, as commonly occurs, the timing of some significant construction projects currently underway (e.g. Ridgedale Active Adult, Jordan Avenue apartments) may result in relatively large early proceeds that would lead to a gain to the city's General Fund bottom-line at the close of the 2018 fiscal year.

Current spending. GF operating costs in 2018 are currently estimated to be at a pace greater than last year. If spending continues at the rate experienced up to the end of July, more of the budget will be spent by the end of this year than last year, and departments will have spent 97.1 percent of their budgets, compared to 95.8 percent last year. At the current rate, almost \$990,000 of the GF budget would remain on the bottom-line at the end of 2018, compared to \$1.4 million at the end of 2017. Most importantly, there still remains 2018 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 a transfer 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 2017 compared to 2018 are projected here:

(\$ thousands)	<u>2017 Actual</u>	<u>2018 Projected</u>
Excess revenues	\$185	\$0
Remaining expenditure budgets	1,465	990
Capital transfers (CIP)	(750)	(1,200)
Net change GF fund balance	\$900	(\$210)

Despite some uncertainties, timing of the previously mentioned permit revenues may portend some funds available at the end of 2018. These “excess revenues” may be either transferred from the General Fund balance for one-time costs within the city’s 2020-2024 CIP, which will be discussed by the council next spring, or to ensure the fund balance can remain at sufficient levels over the next five years to meet council policy. As we approach the council’s second detailed budget study session in November, additional information may adjust 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 currently robust economy will not continue much beyond 2019, and staff uses a ten-year average of actual revenues prior to 2018 as the basis for permit revenues beginning 2020.

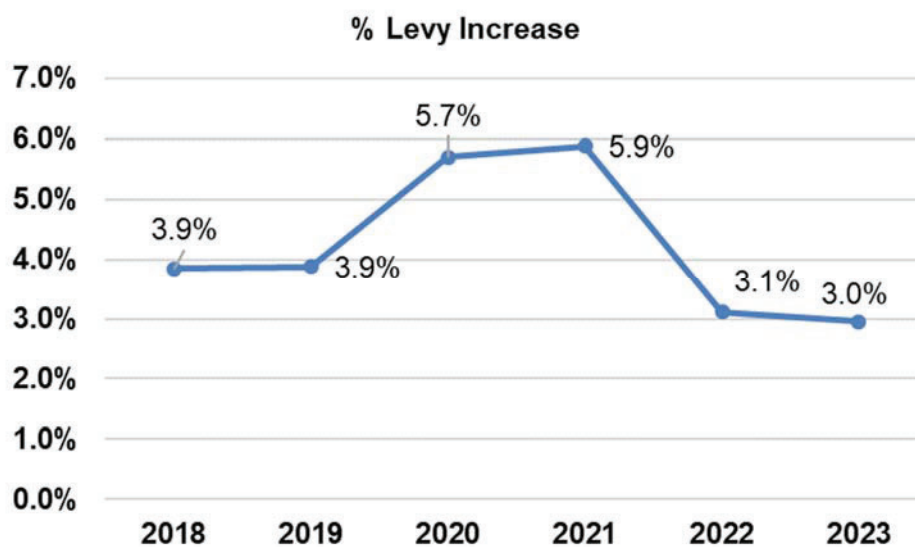
As a result of these projections, the city is likely to experience a significant increase in permit revenues in 2019 that will likely not be repeated in 2020 and the following few years. This will add pressure to the property tax levy to financially maintain the city’s current level services and any additionally projected costs after 2019.

Expenditure projections. With the remainder of this report focused upon the budget and levy recommendations for 2019, 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 potentially new and expanded public safety facilities (2020, 2021);
- public works maintenance of new trails, sidewalks and related landscaping in the adopted CIP (2020, 2021, 2023);
- communication staffing (2022);
- a second state-required increase by city for police and full-time firefighter pensions (2020); and
- an economic development marketing initiative (2021).

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. Added to these GF operating pressures, the property tax levy will also increase almost one percent in 2020 for property tax-supported debt service, if the bonding is approved for the new and expanded public safety facilities. 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 the greatest pressures on years 2020 and 2021 at 5.7 percent and 5.9 percent, respectively.



These overall projected levy impacts have informed staff budget recommendations for 2019 and some recommendations for amending the currently adopted CIP.

Between now and the second council study session on the 2019 budget in November, any new data either unanticipated or not currently available will allow staff to further analyze 2018 and 2019 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. Also, as will be explained further in this report, recommendations of a consultant conducting a study of the city's fire services will not be available until October.

2019 BUDGET

Staff proposes the 2019 General Fund city operating budget total \$36.1 million, which is slightly higher than discussed at the council's August budget study session. This total, financed with multiple sources of revenue, is 6.2 percent greater than the 2018 adopted budget. As a primarily service organization, the greatest of the additional costs are associated with market wage pressures and cost of living adjustments. The proposed increase is net a proposed budget

reduction of almost \$300,000 associated with one-time costs that are no longer needed in 2019 and the final elimination of 9-1-1 dispatch costs.

General Fund Operating Budget (\$ thousands)

2018 Adopted	\$33,967
Current services	1,288
Reductions & savings	(296)
Add'l svc needs, programs	<u>1,105</u>
2019 Proposed	\$36,064 6.2% increase

The proposed additional spending will be more fully outlined in the remainder of this report. The greatest of these is funding to efficiently and effectively accommodate both current and projected increasing demands of the city's public safety services as the city has grown and is projected to grow, including a new patrol officer and significant changes in how police officer compensated hours are structured for training and patrol. Since, the council's August budget study session, the additional spending includes funding to accommodate greater development and construction permit activity in the city. Also later in this report, staff will address an additional needed placeholder to prepare the city for recommendations of the fire services study due to be completed in October, which will address the ongoing challenges facing the city's paid-on-call fire service structure.

Budget reductions and savings

The city of Minnetonka conservatively budgets revenues and expenses in a manner that balances the economic impact of taxes and fees upon property owners and tenants with ensuring that vital local government services are never interrupted. Therefore, good budgeting practices requires we strip the base budget of cyclical and one-time expenditures as well as reduce it for anticipated savings. As such, the proposed 2019 budget includes the following reductions:

Final 9-1-1 dispatch technology fees	\$75,800
Comprehensive Plan to be completed	85,000
Fire services study to be completed	75,000
Job description contract completed	30,000
<u>Cyclical statewide election costs</u>	<u>30,000</u>
Total Budget Reductions, Savings	\$295,800

Current services, inflationary personnel cost pressures

Because city government is primarily a service industry, three-quarters of the General Fund operating budget is the cost of its greatest assets, its workers. Commensurately, much of the increase to maintain current level services for our community is to compensate our human resources. While our effective relationships with our bargaining units continue to reap both production and economic benefits for the community, the city faces continued market pressures to retain and recruit these high-valued assets.

While general inflation (CPI-U) for the Twin Cities area was 2.4 percent at the end of July, wages for the metropolitan statistical area are measuring annual increases of slightly over three percent for the same period. At the same time, the national Municipal Cost Index, which incorporates a basket of goods consumed by local governments, was 3.7 percent year-over-year as of July.

The city plans to continue to use a 1.5% base salary increase and review all positions according to its market philosophy structure to ensure that employees are fairly and competitively compensated compared with what other comparable cities pay their employees with similar responsibilities. Market wage pressures on the city of Minnetonka will require an average around three percent total increase in wages in 2019 (base plus market). Only one of the city's three labor contracts will expire at the end of 2018 and will be up for negotiation.

As a member of the LOGIS Healthcare Consortium, a guaranteed rate cap for 2019 has been negotiated and is not to exceed a 10 percent increase for health insurance premiums. Since the city structures its benefits package using a cafeteria contribution system, the premium increase is largely borne by 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. This approach reinforces the philosophy to move from an equitable to an affordable benefits package.

Budget enhancements

The proposed 2019 General Fund (GF) budget includes new funding of \$1.1 million. The larger of these costs are:

- current and projected police service demands, including the addition of one sworn officer;
- heightened inspection and permitting services associated with enhanced development activity in the city, including one additional inspector position;
- sidewalk, trail and cul-de-sac service maintenance, including snow removal;
- technology applications for the city's website and other operational programs;
- additional interns for legal services and administration;
- implementation of the EAB (Emerald Ash Borer) program with the hiring of an additional forestry technician (only partially funded with additional costs to the GF along with transfers from the Forestry Fund); and
- placeholder for recommendations from the fire service operations study.

Staff is also proposing additional staffing for the Williston Center, one additional evening maintenance position and one tennis program position, which are both to be fully funded by the center's fee revenue. Including the new Williston center positions and not assuming any specific staffing recommendations from the fire services study, staffing at the city would increase by a little over four cumulative net positions.

Police Services

The police department protects human life and property by responding to emergency and non-emergency calls for service, enforcing laws and ordinances, investigating crimes, apprehending criminals, providing proactive policing and maintaining order. The Minnetonka Police Department, established in 1959, has a long standing history of embracing a community policing

philosophy. In 2017, internal staffing changes were made to meet changing needs of the department and community. Two new positions, community engagement officer and crime analyst, were created using existing staffing levels.

Currently, the police department is staffed with 56 sworn officers, up from 54 in 2000. Between 2000 and today, staffing has fluctuated between 54 and 58 sworn officers. The difference is due to the elimination of four school resource officers (SROs) at Hopkins Middle Schools West and North, Minnetonka Middle School East, and West Education Center, along with the addition of a traffic officer and a detective. The SROs augment patrol in the summer months, increasing staffing during this time. With the elimination of four of the department's seven SROs, summer patrol staffing is not at previous levels.

Geographically, the city is approximately 28 square miles and divided into four distinct patrol districts, or beats, that are predetermined based on call volume. Each patrol district is staffed 24 hours a day, seven days a week by at least one uniformed officer – allowing a prompt response to calls for service. (Attached is current district map.) In addition to the four patrol districts patrolled by an officer, there is at least one supervisor, sergeant, on duty 24 hours a day, seven days a week. The current patrol districts were last updated in 2000 when police responded to 34,834 calls for service, compared to 43,504 in 2017. Calls for service continue to rise and are on pace to exceed 44,000 in 2018.

Employment in Minnetonka has increased from 44,100 jobs in 2010 to 46,200 in 2017. Population has increased from 49,734 in 2010 to 53,394 in 2017. Approved and proposed development, specifically in the Ridgedale and Opus areas, is anticipated to add approximately 2,712 housing units, increasing the city's population by over 5,000 in the next three years. These areas are located in the northeast and southeast portions of the city, and increased residential units will impact patrol response.

Providing core police services can be challenging as each core service has its own characteristics, scope, and breadth of work; and as our population flourishes, service demands will expand and become more competitive. Calls for service that require a two officer response is on the rise, which also impacts capacity to respond to other calls. These incidents include mental health and medical related calls, and calls for service at facilities such as Nexus on the Hennepin County Home School property. Complex calls also require officers to remain on scene longer, making them unavailable to respond to additional calls for service, which can create a backlog of non-priority calls.

The primary concern is not if the police department can continue to provide acceptable responses to core service work demands despite these growing difficulties; but how well can police continue to do so given the competitive nature of current and future demands. Studies indicate that the majority of a police officer's time is spent in non-arrest situations. Many of these calls involve residents who are dealing with common day-to-day, noncriminal problems. This trend is expected to continue.

With all calls for police assistance, residents expect the police will arrive promptly and address their concern(s). The volume of calls directly impacts the ability to respond quickly and with adequate resources. Call volume can also affect an officer's ability to conduct traffic enforcement and proactively patrol neighborhoods, parks and other areas to deter criminal activity or to interact with residents in a non-enforcement encounter.

Staffing proposal. Staff continuously reviews its procedures and operational model looking for strategies to provide effective and efficient police services. In addition, technology continues to evolve, providing invaluable contributions. While these strategies are vital, staff believes current staffing levels should be increased. The four patrol districts have served the community well, providing appropriate coverage and response to all areas of the city. As calls for service increase and development continues, staff believes an additional patrol district is needed to meet this demand.

To adequately staff a fifth patrol district, additional resources are needed and staff has identified a combination of strategies to increase patrolling capacity. The first two strategies include hiring an additional police officer and making changes to our current model for compensating training hours. A third strategy is dependent on the outcome of on-going discussions with District 287, West Education Center, and if there is a change to its SRO position.

Additional officer. The preliminary 2019 budget includes the addition of one sworn police officer assigned to the patrol division. This is based on the growth in the city's employment base, population, and calls for service in recent years, coupled with the anticipated addition of over 2,700 housing units in a relatively short period of time. The cost of this position would be \$166,000, inclusive of personnel expenses and capital costs for an additional squad car. Often, the question is how many officers are needed based on a city's population. Each city is unique, but a survey of seven comparable Hennepin County police agencies found the average is one officer per 780 residents. The Minnetonka Police Department is currently at one officer per 953 residents.

Training compensation. Officers are required to complete specific annual training as mandated by the Minnesota Board of Peace Officer Standards and Training (POST). In addition to POST training, the department mandates additional training each year. The police department's current practice is to assign training to patrol officers in one of two ways. Either, 1) officers are allowed to train on their regular scheduled work day if minimum staffing levels are maintained. Typically, this allows one or two officers to train on-duty and is available by seniority. Or, 2) officers are assigned on their day off and subsequently flex off their regular scheduled patrol shift. Both have a direct impact on patrol coverage. Per the FLSA (federal Fair Labor Standards Act), flexing of time must occur during the two-week pay period. This requirement can make it difficult to manage shift minimums during certain department-wide training.

Staff reviewed the mandated training hours and found it requires approximately 47 hours each year, per officer. Because this has a direct impact on patrol staffing and minimum coverage, it does not apply to non-patrol positions, such as detectives, SROs, the community engagement officer and command staff. Staff believes that annually, approximately 1,833 hours is flexed off of patrol to accommodate the mandated training.

If mandated training for patrol was provided on the officer's day off and officers were compensated at an overtime rate, staff believes the approximate 1,833 hours would be spread out among all patrol officers and more coverage would be available on patrol. This **would not** change the practice of flexing time off for non-mandated training. The 2019 preliminary budget includes \$126,300 in funding to accommodate changing the training compensation practice.

West Education Center. West Education Center (WEC) is a District 287 school located at 11140 Bren Road West. The school opened in 2004 and is a highly structured environment serving six different programs. A condition of the school's conditional use permit (CUP) approved by the city requires an agreement with the police department for the delivery of police

liaison services, a.k.a. SRO. Upon opening, an assigned SRO was funded by the school at a cost of approximately ten months' salary and benefits. A second SRO was added in 2009 due to SRO safety concerns and was also funded by the school.

During the 2016-2017 school year, district administration approached the city and requested that one of the positions be eliminated due to costs. The district stated changes to programming and response to behavioral problems was occurring, and that they did not believe a second officer was needed. The police department and city agreed to eliminate the second position, and in 2018 the second position was eliminated through attrition, reducing the sworn officer count from 57 to 56.

Recently, district administration informed the police department of their intent to request an amendment to their CUP eliminating the requirement for any police services. These discussions are on-going and currently no agreement has been made. Staff feels strongly that the SRO position is necessary based on the number and types of police responses at the school. However, should the CUP be amended to remove the requirement and no funding is received from the school, the impact to the 2019 budget is \$41,000.

This SRO position is used to backfill patrol during the summer months and if the school eliminates funding, the 2019 proposed budget includes funding for the position within the police department's annual operating budget. The police budget currently funds approximately two month's salary and benefits for the position. To offset the cost, the police department would eliminate a vacant 0.6 FTE (full-time equivalent) community service officer position, and the equivalent of a second 0.6 FTE after a full-time records clerk position is eliminated and the part-time evidence technician position is changed to full-time. To ensure adequate city staffing is maintained, the current 2019 budget proposal includes an additional \$41,000, which is the net cost of these changes along with the city assuming funding for the sworn officer position.

The current and anticipated rise in calls for service based on the city's population and employment growth, along with the potential for elimination of the SRO at West Education Center, warrant improvements to the police staffing model. A combination of personnel adjustments and use of overtime is included in the recommended 2019 budget to address these impacts.

Construction inspection and permit services

Since the council met in August to discuss the 2019 budget, staff is proposing to amend the current 2018 operating budget and include in the 2019 preliminary budget funds for the hiring of one additional inspector. Although it was hoped that temporary and seasonal positions could continue to handle the heightened demand for inspection services associated with the city's increase in development activity, a very tight labor market has made that staffing structure difficult to meet customer expectations. In order to ensure the city can provide an appropriate level of service, the 2019 preliminary budget includes \$110,500 in additional funding for one new inspector position. These additional costs would be incorporated using the already forecasted increase in permit revenue in 2019 and no additional levy increase above that already proposed. Hiring of the position this year can be supported with savings from temporary vacancies that the department has experienced in 2018.

Street, sidewalks, trails services

In response to citizen demand for greater and safer pedestrian and bicycle infrastructure, the adopted 2019-23 Capital Improvement Plan (CIP) includes significant planned expansion of the

city's sidewalks and trails system over the five years and potentially into the future. Included in the adopted plan are substantial trail improvements surrounding Ridgedale Mall and along major roadways throughout the city. Public feedback continues to be sought through articles in the *Minnetonka Memo* and on the city's website, along with a direct mailing seeking input from businesses. On August 27, the council introduced an ordinance to establish an ongoing funding source for constructing the plan and take public comment.

As the city has expanded and is expanding its trails and sidewalk systems, there are increasing demands by our community for greater city maintenance, especially during the winter. Therefore, the 2019 proposed budget for street maintenance includes an additional \$60,000 to address a number of road and sidewalk/trail maintenance items. Quicker snow removal in cul-de-sacs and extended plowing hours are seen as ways that snowplowing can be improved in the city. Next year, the use of contract and/or seasonal plow operators will to be experimented with to determine if this is an appropriate solution to addressing increased demands. A variety of communities have tried limited contract snow removal; however, the quality of the work has to be monitored very closely. Also, as the importance and the size of the sidewalk/trail system expands, additional resources will also be directed to improve snow removal in this area.

Technology

At a total additional cost of over \$82,000, the 2019 recommended budget also includes investments in technology within the organization to assist with customer service efforts and increased service delivery levels. In some cases, new software applications will replace existing systems that have become obsolete. Elsewhere, technology maintenance costs have increased, particularly for public safety mobile equipment. Examples of the investments include a new operating platform and more efficient content management system for the city's website; election management database software for judge training, assignments and payroll for approximately 450 election judges; fire service scheduling and tracking module; and technology for police squad cars.

LMC Internship Program

Although most of the city's departments have employed interns for many years, staff created a formalized internship program in 2017, for implementation in 2018. A total of \$50,000 is proposed to be included in the 2019 budget to support participation by the Administrative Services and Legal Departments in separate internship programs. Both programs are being coordinated by the League of Minnesota Cities (LMC), in an effort to attract students to the fields of public administration and municipal law. The League will hire the interns, and participating cities or law firms will reimburse the League for salary costs. The initial year of the legal internship program is being coordinated with the League, Mitchell-Hamline School of Law, Minnetonka, and private law firms that represent cities. The initial year of the administrative fellowship program involves the League, Minnetonka, and the city of Delano.

CIP Amendments

In addition to operating cost increases, staff recommends two amendments to the 2019 capital budget, which will require an increase to the 2019 levy for the Capital Replacement Fund. The first, \$40,000 for an additional squad car associated with the new sworn patrol officer in the police department, was mentioned earlier in this report. The second is an additional \$100,000 related to the already scheduled City Hall and Community Center renovation projects.

Fire Services Operational Study

Beginning in April of 2018 the city engaged a fire service consultant to assist in planning future operational objectives and needs, especially in relation to the increase in turnover of paid-on-call (POC) personnel. The city's primary intention is to remain proactive, identifying needs and solutions that will enable sustained, effective delivery of emergency services into the future. The consultant is expected to have completed recommendations by October 2018 that will include additional career staffing to support the POC fire service structure and enable the city to sustain the use of POC firefighters. Information on the positions and their functions are being incorporated into the study, and staff does not yet have specific details on costs.

It is noteworthy that many of our comparable cities are shifting from the POC fire service staffing model to a career department of full-time personnel (most recently, Plymouth and Eagan). Our calculations indicate operating a POC department is much less expensive, and maintaining this model as long as possible can result in significant savings for the community and ensure the ongoing qualitative advantages wrought by a POC fire force. The consultant's study is expected to suggest ways to do so, at a cost yet to be determined.

Staff is projecting \$370,000 in estimated costs for study recommendations, to be included in the 2019 budget and preliminary levy (a one percent levy increase). Current forecasts indicate it is likely that 2020 and 2021 will be much tighter and more difficult levy years for any such additional costs. Because state law requires that the maximum preliminary budget be adopted prior to September 30, including the estimated cost provides flexibility in making a final determination. Prior to adoption of the final 2019 levy in December, council will have the opportunity to review the results of the study, consider any staffing adjustments, and determine funding levels that may be the same or lower than the recommended amount, but may not be higher.

On a closely related note, the city has applied for a federal grant titled Staffing for Adequate Fire & Emergency Response (SAFER) that would fund a coordinator position, equipment, material and services for our recruitment and training activities, especially for new POC firefighters. The application is for a one-time \$711,000 over a four-year period, and the project is an additional proactive effort to address sustaining our POC fire service structure and the related turnover. As of the drafting of this letter, notifications of awards have not been sent.

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 \$1.55 million in Minnetonka. Beginning in 2010, the annual levy increased to \$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, it was increased to \$250,000.

On June 4 the city council adopted the 2019–2023 Economic Improvement Program (EIP), which sets the 2019 HRA levy at \$300,000 (up from its 2018 level of \$250,000) and results in a 0.13 percent levy increase for HRA supported programs. The indicated uses of the funds are: SW Light Rail (\$75,000); WHAHLT or Homes within Reach (\$100,000); 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) reviewed the HRA budget at its Aug. 9 meeting and recommended adopting a preliminary HRA levy of \$300,000 with the above described categories.

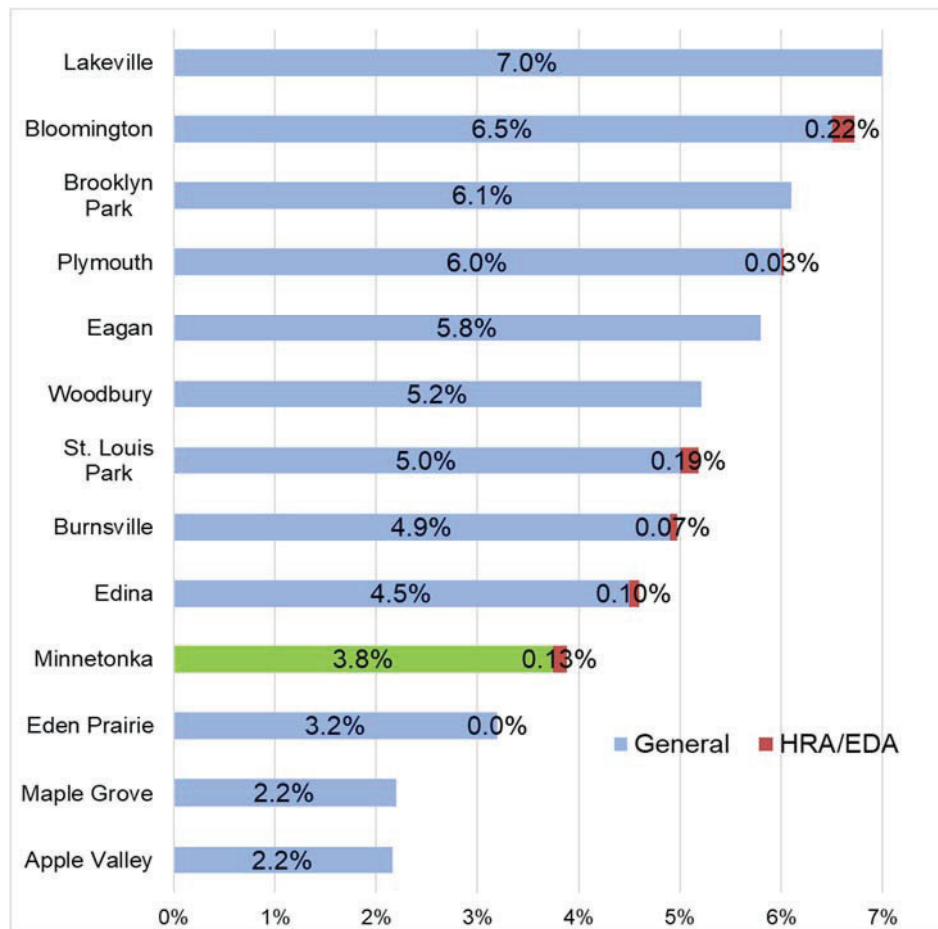
2019 PRELIMINARY LEVY

The 2019 proposed operating and adopted capital budgets would require an overall increase in the city property tax levy of 3.8 percent. The change is the net effect of budget reductions/savings and the one-time projected increase associated with development related revenue that would offset a 3.5 percent increase that would be required to maintain current services, a three percent increase for new operating needs, and a one percent increase associated with the adopted CIP. The HRA levy would be an additional 0.1 percent increase (\$50,000).

Levy (thousands)	2018	2019	Change
City property taxes, current services	\$36,963	\$38,250	3.5%
Revenue increase		(1,106)	(3.0)%
Budget reductions, savings		(296)	(0.8)%
New needs, initiatives		1,105	3.0%
Capital program increase		373	1.0%
Subtotal	36,963	38,326	3.7%
Voter-approved bond debt decrease		(11)	-
Ridgedale tax abatement increase		40	0.1%
Total	\$36,663	\$38,355	<u>3.8%</u>
HRA	\$250	\$300	

Comparisons with Other Cities. The proposed 2019 city levy increase is likely to place Minnetonka at the low end of comparable cities. The differences amongst these communities appears mostly to be related to whether cities are adding staff and whether those new costs may be offset with permit revenue increases or debt retirement.

Potential 2019 Preliminary Tax Increases



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 2018. 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 five years, the city's assessed market value has increased by 23 percent. A portion of that increase is the result of actual improved real estate as opposed to market forces alone. The commercial proportion of the city's tax base increased at a relatively less robust pace as compared to residential and apartment properties. For taxes payable in 2019, the commercial property base experienced only a 2.9% growth increase compared to single family homes at 7.7 percent and apartment properties at 9.3 percent. Although there continue to be some very significant real estate improvements currently in the pipeline (e.g. Opus-area and Ridgedale-area developments), many of those will not add to the property tax base until after payable 2019.

This differential between the increase in the tax base due to residential versus commercial real estate will cause a 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 (nine percent of the tax base). As a result, staff estimates that the impact of the proposed increase in the tax levy of 3.8 percent will result in a 4.4 increase in city property taxes to the median-value home in Minnetonka (\$359,800 for taxes payable in 2019). That translates to an estimated increase in annual taxes of approximately \$53.

RECOMMENDATION

As already noted, this is an exciting time for Minnetonka. Taking into account increasing vitality and vibrancy spurred on by redevelopment and expanding park and trail amenities, the budget proposal proactively and responsibly ensures that quality city service levels keep pace with these dynamic community enhancements.

Responsible long-term financial planning has continued to position the city of Minnetonka to provide highly rated services to city residents and businesses. The 2019 preliminary city tax levy will be limited to an increase of 3.8 percent to address increased demands on our public safety services, heightened demand for construction and permitting services, expanding maintenance costs of our transportation infrastructure, and increasing costs of appropriate technology. This eventual increase is near the lower end of comparable cities. It ensures our position of fiscal responsibility, preserves our standards of excellence, and encourages innovative and creative thinking. The HRA levy increase would add another 0.1 percent onto the total property taxes imposed by the city. Even if the council were to include an additional one percent levy for fire operations, the city would still be at the lower end of comparable cities.

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 2019 and well into the future.

Therefore, staff recommends the city council adopt the attached resolutions:

- 1) Setting a preliminary 2018 tax levy and preliminary 2018 HRA levy, collectible in 2019, and a preliminary 2019 budget, and consenting to a special benefit tax levy of the Minnetonka Economic Development Authority
- 2) Setting preliminary 2018 tax levy, collectible in 2019, for the Bassett Creek Watershed Management Tax District

Originated by:

Geralyn Barone, City Manager
Merrill King, Finance Director

Resolution No. 2018-

Resolution setting a preliminary 2018 tax levy, collectible in 2019, and a preliminary 2019 budget, 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. As required by state legislation under M.S. 275.065, municipalities are required to adopt a preliminary budget and tax levy by September 30, 2018.
- 1.02. The law also requires that the City Council hold a meeting to discuss the budget and property tax levy and, before a final determination, allows public input to its final adoption in December.
- 1.03. The law further requires the final levy be adopted on or before December 28, 2018, and the final tax levy may not exceed the preliminary tax levy.

Section 2. Findings.

- 2.01. The City Manager's preliminary 2019 budget of \$100,659,055 (the Preliminary Budget) appears reasonable and sufficient to fund the desired general fund municipal services, debt service supported by property taxes, and capital needs in 2019.
- 2.02. Preliminary general, capital and debt tax levies of \$38,266,442 for levy in 2018, collectible in 2019, will fund the City Manager's Preliminary Budget.
- 2.03. A preliminary tax abatement levy of \$60,000 for levy in 2018, collectible in 2019, is estimated to equate to revenues associated with and will fund commitments under the Ridgedale Mall development agreement adopted by the city council on April 15, 2013.

Section 3. Authorization.

- 3.01. The preliminary budget and tax levy is hereby approved.
- 3.02. 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.
- 3.03. The City Clerk is hereby directed and ordered to transmit a certified copy of this resolution to the Hennepin County Director of Property Tax and Public Records.

Adopted by the City Council of the City of Minnetonka, Minnesota, on September 17, 2018.

Brad Wiersum, Mayor

ATTEST:

David E. Maeda, City Clerk

ACTION ON THIS RESOLUTION:

Motion for adoption:
Seconded by:
Voted in favor of:
Voted against:
Abstained:
Absent:
Resolution 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 September 17, 2018.

David E. Maeda, City Clerk

Resolution No. 2018-

Resolution setting a preliminary 2018 tax levy, collectible for 2019, for the Bassett Creek Watershed Management Tax District

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

Section 1. Background.

- 1.01. Minnesota state law requires special taxing districts to adopt a preliminary budget and tax levy by September 30 of this year.
- 1.02. The law also requires that the City Council hold a meeting to discuss the budget and property tax levy and, before a final determination, allows public input to its final adoption in December.
- 1.03. The law requires a final levy be adopted after that public input and the final tax levy may not exceed the preliminary tax levy.

Section 2. Findings.

- 2.01. A preliminary tax levy of \$28,989 for the Bassett Creek Watershed Management District for levy in 2018, collectible in 2019, will fund the City's expenses for that tax district.

Section 3. Authorization.

- 3.01. The preliminary tax levy of \$28,989 for 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 Director of Property Tax and Public Records.

Adopted by the City Council of the City of Minnetonka, Minnesota, on September 17, 2018.

Brad Wiersum, Mayor

ATTEST:

David E. Maeda, City Clerk

ACTION ON THIS RESOLUTION:

Motion for adoption:

Seconded by:

Voted in favor of:

Voted against:

Abstained:

Absent:

Resolution 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 September 17, 2018.

David E. Maeda, City Clerk



CURRENT PATROL DISTRICTS

