

**City Council Agenda Item #14D**  
**Meeting of December 2, 2013**

**Brief Description:** 2014 Budget & Levy

**Recommended Action:** Receive public comment on proposed budget & levies

The city of Minnetonka follows an open, public process to review and adopt its annual budget. Although the state requirement for a truth-in-taxation hearing has changed off and on over the years, the city of Minnetonka has always welcomed and encouraged public input on its decisions regarding city services, its budget and property taxes.

Each year, 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 where the council opens the floor to feedback. Proposed budget and tax information is regularly published in the *Minnetonka Memo* and on the city's website where a direct link is provided for comments. In addition, Hennepin County mails individual preliminary tax notices to all property owners in November, which announces the meeting tonight for public discussion.

The volume of inquiries of city staff regarding the proposed budget and levy this year has been relatively normal. As of the drafting of this letter, no budget comments have been received electronically through the city's website. Many of the calls received to date have been from the smaller percentage of residential properties whose values had increased for the first time in a number of years and therefore are likely to receive comparatively high total, not necessarily city specific, increases in property taxes.

**Levy Increase Held Below State 3% Levy Cap**

The city of Minnetonka develops its budgets with its strategic objectives in mind. Specifically, the city's overarching goals for these purposes are to:

- Ensure Minnetonka's position of fiscal responsibility
- Preserve Minnetonka's standards of excellence
- Encourage innovative and creative thinking

As detailed in the city's adopted Strategic Profile, the city of Minnetonka takes a responsible, long-term perspective with the 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 city's responsible budget management has consistently paid off for its taxpayers. For 2014, the property taxes that support core police, fire, streets and parks services *are held to an increase of 2.87 percent, which will result in a slight decrease for the*

*median value home (\$273,200 in 2013) of about \$3.* This proposed levy increase is below the four percent increase we had expected for 2014 when we projected this last year.

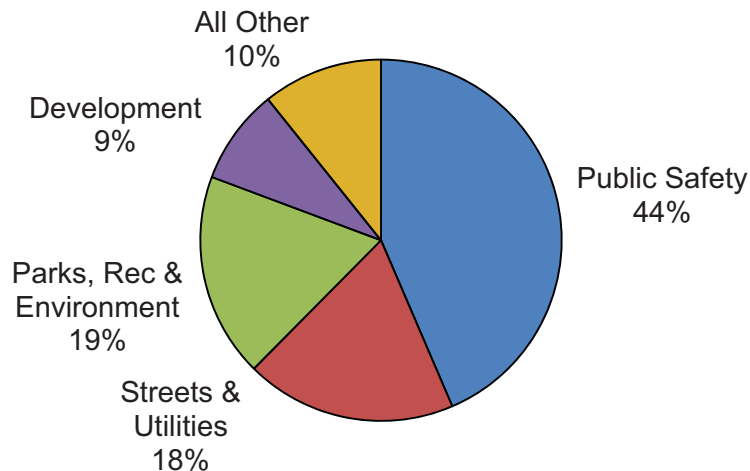
It's important to be mindful that the city is unlike most other communities in the state, because Minnetonka does not qualify for state local government aid (LGA), so will not reap the benefits of the generous increases in LGA adopted by the legislature in 2013. However, as discussed at the August and November budget study sessions, the 2013 state legislature did assist the city by reinstating a sales tax exemption for most local government purchases, effective as of January 1, 2014. The new exemption will be instrumental in absorbing new costs as outlined below, beginning in 2014, and thereby is keeping the city's required levy low for next year.

### 2014 Budget

The significantly greatest proportion of the city's general operating budget continues to be dedicated to public safety programs and services, which is consistently the highest priority of Minnetonka's residents. A higher increase in parks, recreation and natural resources primarily reflects increases in costs for the Emerald Ash Borer program and for additional parks and trails maintenance associated with the growing maintenance requirements of the city's valued amenities. A higher increase in general government (All Other) is in part related to the costs of state and federal elections in 2014.

#### General Fund Budget

GF Spending (000s)	2013	2014	Change
Public Safety	\$12,652	\$13,018	2.9%
Streets & Utilities	5,454	5,463	0.2%
Parks, Rec & Environ	5,340	5,644	5.7%
Development	2,498	2,559	2.4%
All Other	3,061	3,214	5.0%
<b>Total General Fund</b>	<b>\$29,005</b>	<b>\$29,898</b>	<b>3.1%</b>



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### **Public Safety**

Market stabilization from investments in the fire relief pension fund along with an ongoing increase in the annual allotment of state fire aid that is passed-thru to the fund more than covers the state required level of city funding in 2014. After a hiatus to accommodate the change in key public safety leadership staff, Minnetonka's new city attorney and new fire chief will be on board for their first full fiscal years in 2014. Work will continue with a task group of firefighters and actuarial consultants to develop a long-term pension restructuring plan for paid-on-call firefighters. In the interim, the city will maintain its commitment to the paid-on-call firefighters' pension through an already planned increase in city contribution to their deferred compensation plan, which is included in this 2014 budget.

A portion of the increase in funding for the fire department will cover a rise in workers' compensation insurance for paid-on-call firefighters and an accounting adjustment for the paid-on-call salary line-item.

The 2014 budget for the Police Department reflects a reprogramming of staff structures to more effectively and efficiently accomplish its tasks. A full-time property room clerk will be reduced to a 24-hour per week position, and a part-time community service officer with benefits will be supplanted with two part-time positions without benefits. The department will continue to prioritize traffic education/enforcement with a focus on speed, seatbelt, red light violations, distracted driving, and DWI enforcement in 2014. Staff identifies specific traffic concerns on a monthly basis for directed patrol.

### **Streets & Utilities**

The 2014 budget continues the city's strong commitment to maintaining and improving its substantial investment in streets and utilities infrastructure. At over \$40 million in 2014, over one-half of all city resources remain dedicated to this core responsibility. Minnetonka's adopted Capital Improvement Program (CIP) for 2014 includes major street projects such as the continued reconstruction in the Sparrow Road area, the construction of the I-394 westbound on-ramp at Ridgedale Drive, reconstruction of Shady Oak Road between TH 7 and Excelsior Boulevard, and the city's shared costs of the reconstruction of County Road 101 between Minnetonka Boulevard and TH 12.

The city's water and sewer utility infrastructure requires significant capital costs to operate and maintain, and the proposed increases are still modest. Emergency watermain repair under I-494 and a sanitary sewer force main rupture near Prestige Lane were completed this summer and highlight the challenges of maintaining and evaluating an aging distribution system that resides underground. The city's approach to maintaining distribution infrastructure is to only replace what is necessary, not wholesale replacement of sections of the city. New technology has allowed staff to televise, listen and fight corrosion to prolong the life expectancy of the pipes. Staff sees this as more fiscally responsible.

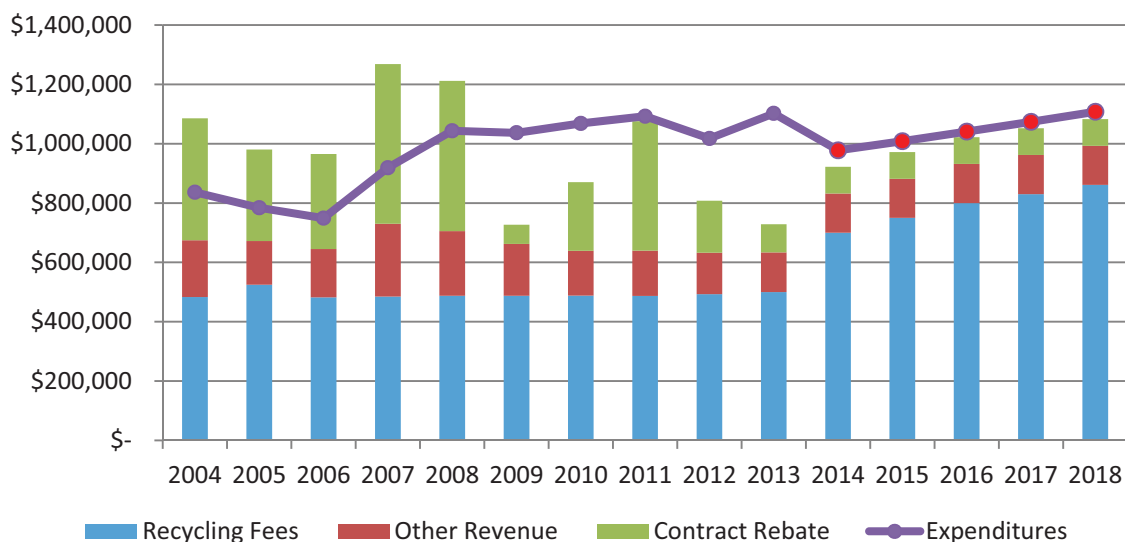
Operating the production and treatment side of the water system is a more exact science and a proactive approach is taken. This February a water system optimization study will be presented to describe how future capital projects will provide increased efficiency and maximization of the finite water production system to meet the challenges of system growth and seasonal demand.

Council adopted a new water system cash balance policy in December 2012, which set targets for reserves. The minimum targets for the operating reserve was six months operating costs and the capital reserve target was ten percent of the system's accumulated depreciation. At the proposed rate increases, 2014 reserves would meet 65 percent of the combined targets. The city is forecasted to reach 100 percent of the combined targets in ten years.

### Parks, Recreation & Environment

One of the most significant changes in the 2014 budget is financial support for the *city's recycling programs*. A substantial change in the market for recycled materials has occurred. This change in addition to increases in the cost of the city's recycling contract and a reduced weight of materials recycled (mainly due to less newsprint and magazines) have resulted in a significant decrease in revenue to the city's Environmental Fund. The fund maintains not only the costs of residential recycling, but also the city's popular yard waste recycling and special drop-off programs. The 2014 budget addresses the fund's current structural imbalance with changes to revenues and expenses.

**Environmental Fund Expenditures & Revenue 2014-2018**



First, staff will be recommending an increase in the residential fee for recycling from \$2.50 to \$3.50 per month, which is included in the 2014 budget. The city's recycling fee rate has remained the same for more than ten years, because until the recession,

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revenues to the city from the sale of recycled materials (shown above as “contract rebate”) along with the fund’s other sources had more than covered program costs. The higher fee would place the city’s charges close to the average of residential recycling fees across the metro, which is currently at \$3.47 per month, and would allow the city to recover the costs of our programs. Council will be asked to adopt the higher fee in December, along with proposed changes to other city utility fee rates.

The 2014 budget also reduces expenses to the fund. Some staff funding, which was previously supported by the Environmental Fund, will be reprogrammed to more closely align with actual job duties, moving the greater portion of the budget for the parks and trails inspector to the parks and trails division. Additionally, budgeted transfers from the Environmental Fund to the General Fund to cover natural resources staff will be reduced, effectively increasing the General Fund’s support of natural resources programming. Other operating expenses had already been reduced beginning 2013; a new recycling guide, published as an insert within the *Minnetonka Memo*, has replaced “The Recyclopedia,” which had previously been individually printed and mailed to every property owner.

As noted during the August and November budget study sessions, the 2014 budget adjusts funding to cover costs for an *additional seasonal inter-community work crew (ICWC)*. While the city already uses two year-round crews for park and utility maintenance, a seasonal group will be used during the growing season to maintain streetscapes and planted medians on various roadways and gateways such as Shady Oak Road and County Road 101. Temporary seasonal employees are only available for a very limited amount of time, while a seasonal ICWC contract would cover a longer length of time in order to maintain these high-maintenance areas.

Also as discussed at the August and November study sessions, the 2014 budget includes funding for the first six months’ costs of the *Emerald Ash Borer (EAB) program*, specifically the pre-EAB phase at a cost of \$162,100. The operating budget of the environmental services division includes expenses for two new staff (an assistant forester and an administrative assistant) as well as additional funding for temporary laborers and operating costs, including technology and fuel. The new Forestry Fund, as provided in the 2014-18 Capital Improvement Program (CIP), provides a budget for tree removal, stump grinding, reforestation and capital start-up equipment.

The city’s *recreational programming* continues to flourish. Despite a modification in membership eligibility for non-residents, the *Williston Center* continues to experience ongoing financial strength. The center’s 2014 budget includes the addition of two new staff members to accommodate its rise in popularity as measured by memberships, facility visits and daily passes. Fee revenues of the enterprise will support these new costs.

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### **Development**

As the city council is aware, the council acting as the Economic Development Authority, preliminarily adopted no change in the current \$175,000 Housing and Redevelopment Authority (HRA) levy through its actions in September. While \$100,000 of this amount will be transferred to the Livable Communities Fund to support affordable housing efforts, another \$75,000 will finance a marketing effort of the city, including market research analysis in the first year. Other 2014 expenses will cover master planning for the village center study at Excelsior Boulevard and Shady Oak Road in anticipation of the new Southwest Light Rail station to be constructed in 2015. The housing loan programs will also continue. Remaining balances in the HRA Fund will fund the master planning and housing programs.

The assessing division budget in 2014 includes funding to increase its current part-time assessment specialist to full-time. The position's workload has been increasing and is forecasted to continue to increase due to the greater volume of special assessments required by the city's expanding diseased tree program along with economic development efforts like housing improvement areas (HIAs).

### **All Other**

Because the city is primarily a service business, workforce-related legislation has a significant impact on both the city's work and its finances. The state legislature adopted additional plans for shoring up unfunded liabilities in the *statewide public safety employee pension fund*, which require additional contributions in 2014 and 2015 by both the city and its employees. Of even greater significance, new requirements of insurance carriers imposed by the *federal Affordable Care Act (ACA)* are triggering health care premium increases and affect the city's contribution to employee plans.

Some provisions of the ACA were delayed until 2015. Nonetheless, the city has evaluated workforce plans across city programs and adjusted staffing structures on a case-by-case basis to accommodate the likely requirements of the act, to better serve customers and to accomplish city program goals. More changes are likely as new administrative rules on the ACA are released by the federal government.

Additional costs in the general government area of the budget include expenses for state and local elections in 2014, as well as market salary increases to maintain competitive wages consistent with salary structures throughout the city.

### **2014 PRELIMINARY LEVY**

The 2014 proposed operating and adopted capital budgets will require an increase in the city property tax of 2.87 percent, which is within the 3 percent levy cap imposed by the state legislature for this next year.



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<b>Property Taxes (thousands)</b>	<b>2013</b>	<b>2014</b>	<b>Increase</b>
Operating & Capital Levies	\$29,926	\$30,825	
Park Bond Referendum	1,064	1,054	
<b>Total City Levy</b>	<b>\$30,990</b>	<b>\$31,879</b>	<b>2.87%</b>
EDA HRA Levy	175	175	

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Although the recommended 2014 budget assumes an increase in city property taxes of 2.87 percent, other factors impact our community taxpayers. Similar to last year, the relative rise in commercial property values compared to a small decrease in residential property values will shift more of the property tax burden upon our commercial property tax base. This will mean that the median value Minnetonka home will experience a slight decrease in city taxes despite the proposed levy increase.

It is critical to be mindful that the city of Minnetonka only accounts for about one-quarter of a homeowner's total property tax bill. The remainder is attributable to taxes levied by school districts (around one-third), Hennepin County (around one-third), and other jurisdictions (the remainder). For businesses, the city's share is only about ten percent of their property tax bill.

To develop the operating budget and consider long-term financial consequences, the city regularly forecasts out to a five-year time horizon to coincide with planning in the CIP. The 2.87 percent increase for 2014 is in line with the projected increases the city forecast in 2009, when we repositioned for the recession. As estimated, we currently forecast future property tax increases in the three to four percent range.

### **Summary**

Responsible long-term financial planning continues to position the city of Minnetonka to address the uncertainties of the economy and state political actions. Public safety and roads remain the highest budget priorities, with nearly three-fourths of the city's annual resources dedicated to these basic services. We continue to strategically position the city to be fiscally responsible, preserve its standards of excellence, and encourage organizational innovation and creative thinking.

Property taxes that support the 2014 budget are held to an increase of 2.87 percent, which meets the state mandated levy cap and is below the four percent increase we had expected for 2014 when we projected this last year. At this rate, the median value home in the city will experience a slight decrease in city property taxes and 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 2014 and well into the future.

**Recommendation**

Receive public comment on the 2014 budget and levies. Final adoption is scheduled for the December 16, 2013 city council meeting.

Originated by:

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