

City Council Agenda Item #14
Meeting of December 7, 2015

- Brief Description:** Items relating to the 2016 operating budget and levies
- 1) Public consideration of proposed budget and levies
 - 2) Resolution adopting a budget for the year 2016, a revised budget for 2015, and setting a tax levy for the year 2015, collectible in 2016
 - 3) Resolution setting a tax levy for the Bassett Creek Watershed management Tax District for the year 2015, collectible in 2016
- Recommended Action:** Receive public comment on proposed budget and levies, and adopt the resolutions

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 and phone number are provided for comments. In addition, Hennepin County mails individual preliminary tax notices to all property owners in November, which announce the meeting tonight for public discussion.

The volume of inquiries of city staff regarding the proposed budget and levy this year has been about normal. Many of the calls received to date since mailing of the Hennepin County preliminary tax notice have been concerning total proposed tax changes (not only the city's) and values of residential properties. They have not generally been about the city's budget. Two additional emails from property owners concerning the budget and levies received by staff since the November study session are attached, and any new written comments, if they are received, will be provided as an addendum to this agenda item.

The purposes of the meeting tonight are to provide another opportunity for public input regarding the proposed budget and levies, to make any amendments should they arise due to those comments, and to adopt the final 2016 budget and associated tax levies, which must be certified to Hennepin County by December 28, 2015. If substantial

changes are needed based on feedback this evening, adoption may be delayed until the council's December 21 meeting.

At its November 16 study session, council reviewed details of the proposed 2016 budget. General feedback from council members that evening indicated a desire to use General Fund monies to support the \$75,000 needed in 2016 for developing the 2040 Comprehensive Guide Plan instead of funds from the Housing and Redevelopment Authority (HRA) levy. As a result, the proposed \$75,000 increase to the HRA levy would be eliminated.

Therefore, the revised budget proposed here incorporates that change with an increase in the General Fund budget by \$75,000 and a decrease in the HRA budget and levy by \$75,000. The additional funding required by the General Fund will be absorbed by its fund balance, and no additional revenues to the general levy beyond the original proposal are assumed. After this strategic adjustment, the revised budget will require **only a 4.0 percent total levy increase** rather than the 4.2% increase set in September when the preliminary levy was approved. Because the HRA portion of property taxes is not legally a statutory levy of the City of Minnetonka, the property taxes needed by the city to support core police, fire, streets and parks services will still result in **an estimated annual increase of about \$28 for the median value (\$317,800 in 2015) home, or 2.47 percent.**

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.

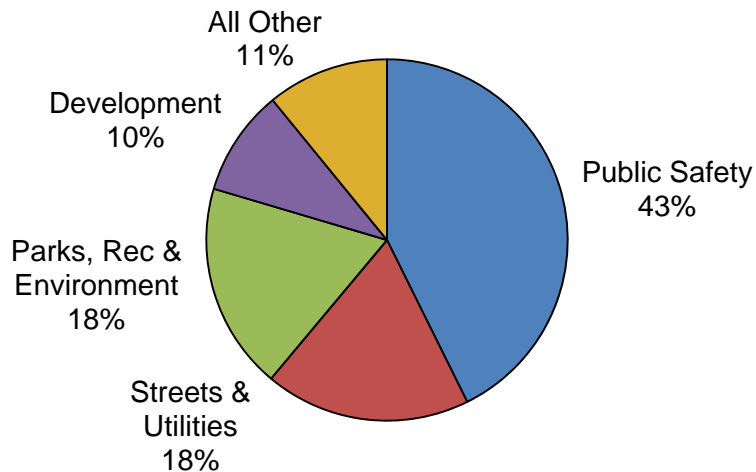
Priorities and needs of the city for 2016 are as previously presented to council and reflect staff's effort to remain modest in light of taxpayers' reported stagnant wages and low inflation. **Over one-half of the new levy proceeds are to be dedicated to public safety**, which continues to be one of the community's highest priorities. The remaining funds generated by the preliminary levy increase support the **preservation of natural resources** and address **changes in employment law and health benefits**. Additional resources devoted to **development needs are self-funded**. Additionally, the consolidated budget incorporates a significant bonding program supported by fees for the city's water and sanitary sewer enterprise and will have been discussed earlier this evening.

2016 BUDGET

The significantly greatest proportion of the city's general fund operating budget continues to be dedicated to public safety programs and services, which is consistently the highest priority of Minnetonka's residents according to the annual community survey. A higher increase in the costs for development services continues to be related

to the improving economy and real estate market along with private developments' intensified demand for associated city services and is related to the additional funding required for the 2040 Comprehensive Plan. As in the current year, development fees will generally cover these rising costs. The increase for general government services, all other, reflects the growing workload associated with an increasingly complex and heavily regulated human resource environment, including requirements of the federal Affordable Care Act.

GF Spending (000s)	2015	2016	Change
Public Safety	\$13,178	\$13,621	3.4%
Streets & Utilities	5,835	5,903	1.2%
Parks, Rec & Environ	5,770	5,877	1.9%
Development	2,872	3,038	5.8%
All Other	3,379	3,480	3.0%
<i>Total General Fund</i>	<i>\$31,034</i>	<i>\$31,919</i>	<i>2.9%</i>



Public Safety

Staffing. As was detailed in previous council deliberations, the 2016 budget includes funding for two new public safety positions. One additional case investigator in the Police Department will proactively respond to current and rising demands related to identity and retail theft in the city. The Fire Department will add one additional full-time firefighter who will serve as the department's training officer and a half-time position to update, coordinate and maintain fire suppression schematics of non-residential buildings in the city. Because the latter position will in part absorb the work that had been previously carried out by paid-on-call (POC) firefighters, a portion of funding

previously supporting the incremental additional work of those POC staff will be reallocated to cover this cost.

Fire Stations. The city's four outlying fire stations were constructed between 1972 and 1991. Station #4 was significantly renovated and updated in 2011. This past spring and summer, a number of critical and unanticipated building repair needs came to light that were and are required for Stations #2, #3 and #5. Therefore, the 2016 budget includes both significant new and some amended capital resources for the repair, maintenance and refurbishment of these outlying fire stations.

The budget amends the 2014 Capital Improvements Program (CIP) to redirect \$125,000 from the Capital Replacement Fund (CRF) previously appropriated for window replacements at city hall to the unanticipated costs of window and roof replacements for Station #5. The budget also amends the 2015 CIP to appropriate an additional \$80,000 from the CRF for the required roof repair and unanticipated remediation of water and mold damage to Station #3. Improvements and repairs to Fire Station #3 had been delayed pending a decision related to its potential relocation as suggested in the 2010 public safety study. Staff determined that the current location of Station #3 is the most cost effective and operationally efficient location at this time, and completed an environmental health assessment of the station this spring.

The adopted 2016 CIP included an additional \$600,000 in the CRF for final renovations of Station #3 as well as replacement of the roof, a failing exterior wall and the insulation system of Station #2. Renovations to this last fire station will ensure that all of the city's outlying fire facilities are now maintained to appropriate standards and can continue to serve the city's needs into the future.

Streets & Utilities

Road Program. The 2016 budget continues the city's strong commitment to maintaining and improving its substantial investment in streets, storm water and utilities infrastructure. At a cost of \$47.1 million in 2016, over one-half of all city resources continue to be dedicated to this core responsibility. Minnetonka's adopted and amended CIP for 2016 includes major street, storm water and water utility projects in the Libb's Lake area and Oakland Road. In addition, significant funds are appropriated for the much-discussed street and lighting improvements to Cartway Lane (Ridgehaven Lane) in the Ridgedale Mall area.

Staff will continue to address the challenges wrought by such major and disruptive construction in neighborhood areas. Various strategies will continue to be used to communicate with homeowners including email updates, group texting, citizen alerts, newsletters, social media, door hangers and magnets with city contact information.

Utilities. The long-range financial plan for replacement and repair of the city's water and sewer infrastructure associated with much of the city's road program is also incorporated into the 2016 budget. In separate agenda items to be considered later this evening are 1) rate changes for water, sanitary sewer, utility connections and the storm water system, and 2) debt obligations, which are the first year actions required to ensure appropriate revenue to support the needed reconstruction of the city's aged water and sewer utility infrastructure.

Buildings. The 2016 budget supports the first full year of the city's new buildings manager. The position will develop a comprehensive condition inventory and long-range plan for all of the city's building assets. This critical oversight will cover energy conservation, environmental control systems, building envelopes, employee workspace as well as public areas, including all buildings associated with the city's enterprises, e.g. Williston Center, ice arenas and water treatment facilities. Although structurally organized within the Public Works Department, the position will coordinate across all programs, divisions and departments to ensure our public facilities remain in good condition and are adequate for all municipal functions.

Natural Resources

Also as discussed at the previous deliberations on the budget and levies, the 2016 budget includes funding to supplement the city's contractual resources dedicated to maintaining the trees in our streetscapes and landscaping along public rights-of-way. On top of this additional \$35,000 in the Street Maintenance Division, \$60,000 is added to the Natural Resources Division budget to address rising resident expectations for boulevard tree trimming and natural resources care associated with the city's neighborhood road revitalization program.

Recreation

Ice Arena. The 2016 budget for the Ice Arena, anticipates an annual savings of over \$61,000 to operations and maintenance costs beginning 2016 after replacement completed this year of the Rink A refrigeration system, rink Floor and dasher boards. Following a difficult 2013 operating year that ended with a significant operating loss that worsened its negative cash position, a series of adjustments and staff reorganization in the Ice Arena's operations as well as lowered utility and maintenance costs have helped to solidify its financial outlook. These adjustments are in addition to an annual subsidy of \$50,000 from the General Fund to support ice arena operations, which began this year. As a result, the enterprise anticipates an operating surplus of \$47,800 in its fund in 2016.

Williston Center. Staff anticipates that the Williston Fitness Center will continue to thrive in 2016. With active membership and daily use forecasted to remain stable, it is estimated the enterprise fund will end 2015 as well as 2016 structurally balanced after

covering costs for capital replacement costs. The fund's cash reserve is likely to get close to the target levels needed to meet its operating and depreciation requirements.

Development

As has been discussed over the last several years and at the August study session, workload in the Community Development Department continues to expand as a result of the economy's improvement. Therefore, as previously mentioned, the 2016 budget includes funding for one additional full-time inspector, whose work will continue to be combined with the use of multidisciplinary training and overtime as needed to provide timely and appropriate customer service.

The revised 2016 budget and levy for the Housing and Redevelopment Authority (HRA) is reduced by \$75,000 from what the city council acting as the Economic Development Authority preliminarily adopted, and an additional \$75,000 is budgeted in 2016 in the Planning Division for first year costs to develop the 2040 Comprehensive Plan.

The 2016 HRA levy and budget also includes \$75,000 to begin a 10-year payback to the Special Assessment Construction Fund (SACF) for the city's commitment to the Southwest Light Rail Transit project. The remaining balances in the HRA fund will serve as continued support for the city's two housing loan programs and comprehensive planning efforts.

Finally, under the city's guiding principal that development pay its own way, the city's 2016 levy also includes for the first year of approximately fifteen years, property taxes to be paid by Ridgedale Mall properties for costs of public improvements associated with their recent renovations and expansions.

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. Two new labor agreements are being negotiated for 2016. Health care premiums will again increase in 2016 by an average of 11.5 percent, which reflects the third year of double digit increases in premiums after substantial reductions in earlier years. The city's contribution will increase to help only partially offset these premium increases.

The 2016 budget includes funding for one additional human resources position to make certain the administration can appropriately support the services levels required by the current turnover, continued staff development needs as well as mounting complexities in health care and other legal provisions including the federal Affordable Care Act. In a lean organization such as the city of Minnetonka, general support in human resources is critical for ensuring ongoing direct services to our public.

Additionally, note the 2016 budget reflects the ordinance adopted in 2014 to increase council members' salaries after the 2015 general election to become effective January 1, 2016. The requirement adds \$22,000 in costs.

GENERAL FUND BALANCE

In 2012, the council revised the city's fund balance policy in compliance with new standards issued by the Government Accounting Standards Board (GASB). The adopted policy helps ensure stable tax rates and allows the responsible allocation of available one-time funds for appropriate uses. Specifically, the policy provides that any balance not assigned to a specific purpose that is above 40 percent of the following year's operating budget is available for other one-time purposes, such as capital needs or pilot programs for which there are no ongoing financial commitments.

Accordingly, the 2016 budget includes a 40 percent Budget Stabilization Reserve, which will accommodate one-time funds to be used to purchase capital equipment as well as facility maintenance and development costs per the adopted and amended CIP in 2016. Current gross revenue estimates for this year indicate the city is expecting higher than initially anticipated net revenues. As has been the city's proven financial practice, the net revenues will offset scheduled capital transfers in 2015. Using actual 2014 figures, these revised 2015 numbers and revenue and expenditure forecasts for 2016 through 2020, the required reserve level and unassigned fund balance will provide for not only the currently programmed transfers for other capital costs during the coming five-year period, but also projected increases in operating costs over that time horizon as well.

2016 LEVY

The 2016 proposed operating budget as revised and adopted capital budgets will require an increase in the city property tax of 4.0 percent.

Property Taxes (thousands)	2015	2016	Increase
Operating Levy	\$23,077	\$23,696	2.7%
Capital Levies	8,676	9,351	7.8%
Park Bond Referendum	1,059	1,067	0.8%
Total City Levy	\$32,812	\$34,114	4.0%
EDA HRA Levy	175	175	

Although the recommended 2016 budget assumes an increase in city property taxes of 4.0 percent, other factors impact our community taxpayers as usual. Expansion of the

city's overall tax base from redevelopment both residential and commercial outpaced general market appreciation. This will mean that the median value Minnetonka home (\$317,800 in 2015) is forecasted to experience an increase in city taxes of only 2.47%, or around \$28 for the year with 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 (33 percent), Hennepin County (35 percent), and other jurisdictions (7 percent). For businesses, the city's share is only about ten to twelve percent of the total. Additionally, the actual change in taxes for any single property will vary from the median on a case-by-case basis.

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 4.0 percent increase for 2016 city taxes fits the projected increases we forecast in 2009, when we repositioned ourselves for the recession. We continue to anticipate future property tax increases in the two to less than four percent range.

SUMMARY

Responsible long-term financial planning continues to position the city of Minnetonka to deal with 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 2016 budget are held to an increase of 4.0. At this rate, the median value home in the city will experience an increase of only \$28 for the year 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 2016 and well into the future.

RECOMMENDATIONS

Receive public comment on the 2016 budget and levies, and adopt the resolutions.

Originated by:

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