

**City Council Study Session Item #2
Meeting of November 16, 2015**

Brief Description: 2016 Detailed Budget Review

Recommended Action: Review recommendations and provide direction

The purpose of this study session is to review detailed budget recommendations and to provide direction to staff on the 2016 budget prior to the public hearing and final budget and levy adoption on December 7, 2015. If substantial changes are needed based on feedback at the public hearing, adoption may be delayed until the council's December 21 meeting.

At its previous August 24 study session, council reviewed proposed 2016 budget targets, and subsequently adopted a preliminary budget at its September 14 regular meeting. The adopted budget required a preliminary property tax levy that was 4.2 percent higher than that of 2015, including the Housing and Redevelopment Authority (HRA) levy. Staff estimated that the adopted levy would decrease property taxes for the median value home in Minnetonka (\$317,800 in 2015). However, as council was notified earlier this month, the number for fiscal disparities used by staff for estimating the impact did not match the calculation provided by Hennepin County. Instead, ***the median value home will see an increase of \$28 for the year, 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 to be discussed later this evening.

Although a truth-in-taxation hearing is no longer required, the city of Minnetonka has always welcomed and encouraged public input on its budget and property tax decisions. As is the city's practice, preliminary information was regularly provided in the monthly *Minnetonka Memo* and on the city's website, with community residents and businesses invited to provide feedback. In an addendum for council review are copies of emails from city taxpayers along with staff responses regarding the 2016 budget and levy.

Also attached for council information is a staff report, which was first provided last year, on adjustments in city operations during the last twelve months that highlights some ways that the public continues to receive value at reasonable costs. As merely a sampling of such continuous change, this addendum highlights a brief list of some of the modifications every city department has made over the period or is included as part of the 2016 budget. Additional changes are noted in the issues section on individual budget pages.

City management and employees continue to maintain its system of reevaluation through several means, including a three-tiered (city-wide, department level, and individual) annual merit system tied to the city's Strategic Profile. Additionally, we use all other windows of opportunity that arise with staff turnover and retirements to analyze potential reorganizations, staff assignment changes, outsourcing, and divestment of service provision. Council will note changes in employee numbers summarized in Appendix C between the original and revised 2015 budget and the 2016 budget reflect some of these adjustments. A commitment to employee development, training and regional involvement keeps new ideas and technology advances fresh and forward thinking.

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 development's intensified demand for associated city services. As in the current year, development fees will 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.

<u>GF Spending (000s)</u>	<u>2015</u>	<u>2016</u>	<u>Change</u>
Public Safety	\$13,178	\$13,621	3.4%
Streets & Utilities	5,835	5,903	1.2%
Parks, Rec & Environ	5,770	5,878	1.9%
Development	2,872	2,963	3.2%
All Other	3,379	3,480	3.0%
<i>Total General Fund</i>	<u>\$31,034</u>	<u>\$31,845</u>	<u>2.6%</u>

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 these 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 facility had water damage due to a problem with the roof through-wall flashing on the dispatch area of the building. As a result, emergency repairs were made which required masonry work and all the capstones were re-sealed over the entire roof. The windows in the building were found to be in very poor condition and were also replaced. New blinds were installed in both the upper and lower levels of the occupied space.

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.

Complete remediation and refurbishment of Station #3 included and will include cleaning the exterior stone and wall and replacement of carpet, tiles, drywall, window blinds and turnout gear lockers in the apparatus area. A majority of the walls were painted. Landscaping was removed and will be replanted next spring when exterior work is finished. The parking lot tarmac was also removed and repaved.

Although the roof of Station #3 was replaced two years ago, water problems continue to exist and have been traced to the leaking metal siding on portions of the exterior. It was thought that the windows were the cause of the leaks, but further investigation revealed that the metal siding is not weather tight and has caused significant damage to the insulation and the wooden support structure of the siding. This last repair will be completed after a repair plan has been determined.

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.

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 a separate agenda item to be considered later this evening.

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.

Sidewalks & trails. Earlier this year, the city council adopted Policy 11.17, which were general guidelines for snow and ice control on municipal streets, off-road trails, and sidewalks. At the 2016–2020 Capital Improvements Program (CIP) study session in April, sidewalk and trail connections along with winter sidewalk maintenance were highlighted as topics that warranted additional discussion by the council. This conversation was intended to take place at the 2016 budget meeting, but as staff began discussing the content it became clear that the time needed for the topic will need to be longer than anticipated. As a result, a study session in early 2016 will be scheduled to allow for adequate time.

There are generally three issue areas that require deliberation: 1) the existing trail and sidewalk system and its maintenance; 2) new trail connections created by independent development, buildout of the city's existing trail system plan, or city road reconstruction (CIP); and 3) potential village center trail connections.

Existing system - The existing trail/sidewalk system has approximately 90 miles, and approximately 0.5 to 1.5 miles are added each year. The proposed 2016 budget keeps the maintenance of the existing system intact. Two maps provided illustrate the current system and current maintenance guidelines. A future product would identify all specific properties to be maintained for snow and ice by the city versus by private property owners (e.g. development/homeowners associations).

Capital Improvement Plan - Missing recreational trail links have been identified and studied in the past. The CIP will be re-evaluated and prioritized in order to provide better connectivity. Many segments have been delayed due to prioritizing the financial benefit gained when completed as a part of road projects. Because some road projects are not scheduled in the near term, construction of the associated trail segments/sidewalks may need to be accelerated in order to meet community needs.

Another issue to be addressed is that sidewalks adjacent to collector and arterial streets are becoming more important for pedestrians as transportation patterns shift with changing demographics. City commercial nodes or business areas need to be served by sidewalks as commercial districts develop or redevelop. It is prudent to review the current inventory, plan for future needs in a proactive planning process (similar to the Ridgedale walkability planning efforts) and determine the appropriate responsible party for maintenance.

Future issues - Light rail transit (LRT) will have a dramatic effect on the placement and maintenance of sidewalks and trails serving LRT stations as the project approaches completion. In order to be ready for year-round pedestrians and bicyclists, implementation of the plans established for Opus and Shady Oak station areas is important. As the LRT project approaches construction, CIP alignment will continue to be evaluated.

Also, winter maintenance of many bus stops in the city is an ongoing concern due to Metro Transit's policy of not removing snow in these areas. Most bus stop facilities are not cleared of snow, and users frequently call the city requesting clearing of the stops. Currently, the city does not have the capacity to address snow removal in bus stop areas. Evaluation of important or high boarding locations may be a future budget consideration, if the council wishes to prioritize connections to transit.

Review process:

January	Study session to review issues outlined above, including in-depth data.
March	Analyze if additional missing links need to be added to the plan and reprioritize list based upon council direction in January. Park board review.
April	Propose changes to CIP, as needed, for discussion at CIP study session.
August	Identify additional maintenance costs for 2017 during budget work session.

Discussion Questions:

Does council agree with the process outlined by staff for sidewalks and trails? Are there any additional issues that should be addressed in the analysis?

Natural Resources

Also as discussed at the August study session, 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 update. Following a difficult 2013 operating year that ended with an operating loss of \$192,662 that worsened its negative cash position, the Ice Arena has gone through a series of adjustments in order to help solidify its financial outlook. These adjustments were in addition to the council's authorization to provide a one-time infusion of \$200,000 and an annual subsidy of \$50,000 from the General Fund to support ice arena operations beginning in 2015.

Operational changes designed to improve the ice arena's budget include council's direction to advance the refrigeration and dasher board renovation project from 2018 to 2015. The project was completed this fall, on time and under budget, which adds to the

savings garnered due to its earlier timing relative to the bidding environment for such renovations.

Completion of the project will reduce annual expenditures due to the elimination of expensive R22 refrigerant and the reduction in costly repairs needed on the previous 40-year-old mechanical system. In addition, collision impact technology, designed into the new dasher board system, will allow for a safer skating environment for hockey. One other significant operational change involved the elimination of the Ice Arena Assistant Manager position due to an ice arena division staffing reorganization.

As a result of the renovation project and staffing reorganization, the 2016 ice arena operating budget has been reduced by \$61,200. With the \$50,000 subsidy still in place, staff is projecting for 2016 an ice arena operating surplus of \$47,800, which will constitute another significant step towards resolving its negative cash position of approximately negative \$380,000 at the end of 2014 and towards an appropriate operating reserve balance.

While the operational outlook for the ice arena is significantly improved, concerns still exist with the overall ice rental marketability in the Hopkins-Minnetonka community. More specifically, staff is concerned with the impact the proposed addition of a second sheet of ice at Minnetonka High School presents. While the Minnetonka Youth Hockey Association has made assurances that they will not reduce their purchase of prime skating season ice (October-February), the impact that an added facility will have during the off season (March-September) is of concern.

To prepare for a possible downturn in non-prime season ice rental sales, the arena staff continues to promote and expand existing year-round programs such as the Lake Minnetonka Figure Skating Club, and city programming including the learn to skate program, public skating and adult hockey leagues. In addition, efforts are being made to try and attract new non-prime season users such as outside adult league organizations, hockey camps and skating clinics. All said, the possibility still exists that, at some point in the future, Rink B could be converted to a non-ice related use such as indoor soccer for part, if not all, of the March-September season.

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.

As the city council is aware, the council acting as the Economic Development Authority preliminarily adopted an additional \$75,000 in the Housing and Redevelopment Authority (HRA) levy 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.

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. Council will have discussed progress on two new labor agreements for 2016 in a closed door session earlier this evening. Health care premiums will again increase in 2016 by an average of 10.5 percent. This is 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, at a total increase in cost of around \$106,000.

As was discussed during the prior budget work session in August, 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 and another 0.2 percent for the increase in the HRA levy.

Property Taxes (thousands)	2015	2016	Increase
Operating & Capital Levies	\$31,753	\$33,047	
Park Bond Referendum	1,059	1,067	
Total City Levy	\$32,812	\$34,114	4.0%
EDA HRA Levy	175	250	
Total Combined Levies	\$32,987	\$34,364	4.2%

Although the recommended 2016 budget assumes an increase in city property taxes of 4.2 percent, as usual other factors impact our community taxpayers. 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.

Discussion Question: Does the council have any questions, comments or feedback regarding any aspect of the proposed 2016 budget?

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 percent with an additional 0.2 percent for the HRA. 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.

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