

City Council Agenda Item #14
Meeting of September 14, 2015

Brief Description: Items related to the 2016 Preliminary Tax Levy:

- 1) Resolution setting a preliminary 2015 tax levy, collectible in 2016, and preliminary 2016 budget
- 2) Resolution setting a preliminary 2015 tax levy, collectible in 2016, for the Bassett Creek Watershed Management Tax District

Recommended Action: Adopt the resolutions.

As discussed at our city council study session on August 24, the proposed 2016 levy and budget will result in property taxes on the median-value home in the city going down. New development and redevelopment in Minnetonka has broadened the tax base to more than offset the levy increases of 4.2 percent proposed. And, consistent with the community's priorities and the city's position of fiscal responsibility, preservation of our standards of excellence, and encouragement of innovative and creative thinking, the largest proportion of the levy increases are to be dedicated to public safety.

Because of the higher capital demands, operating recommendations are kept modest to stay mindful of reported stagnant wages in the private sector, our taxpayers. Despite continued rises in the cost of employee health care and some market force salary pressures, the city's operating costs are also being held down with the support of a very low inflation rate including reduced energy prices, especially fuel.

The city's proposed levy increases are likely to place Minnetonka in the middle 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 2016 nor does the city special assess property owners for road reconstruction.

OUR PUBLIC PROCESS

State law requires cities to certify preliminary budget and tax levies to the county by September 30, 2015.¹ This is the maximum amount the city can levy for 2016. Counties then report these preliminary levies to all property owners in November. When the

¹ The 2014 State Legislature extended the deadline for certifying city preliminary levies to the county from September 15 to September 30. However, HRA and EDA preliminary levies must continue to be certified by September 15. Although a bill was introduced to correct this inconsistency last session, it was not ratified. Therefore, both the general levy and the HRA levy for Minnetonka are scheduled for adoption this evening.

budget is adopted in December, the final levy may be less than the preliminary amount, but cannot be greater.

Minnetonka always encourages input on its budget and will hold a public hearing when it adopts the final levy and budget on Monday, December 7, 2015, during the regular city council meeting beginning at 6:30 pm in the City Council Chambers.

In addition, residents and businesses will again have an ongoing opportunity to provide feedback via the city's website: www.eminnetonka.com. All individual comments received in all formats will be shared with council as budget options are considered, and updated information will consistently be posted in the *Minnetonka 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.

Current year financial projections

A continuing tighter fiscal environment is projected to continue with 2015 revenues conservatively projected to meet forecasted obligations including capital fund transfers for the year. Continued low investment interest along with recreation fee revenue below projections this year is anticipated to be offset by growth greater than budgeted in permits and licenses associated with the improving economy and a modest increase above forecast in public safety fine revenue.

Most importantly, revenues are estimated to continue to cover projected obligations from 2016 through 2020 with an ongoing modest trend of rising between 2.3 to 3.3 percent annually during the period. As we approach the council's second detailed budget study session in November, additional information may further adjust current 2015 spending, but revisions to budgeted costs are expected to minor with a positive outlook for savings, including lower than anticipated fuel costs. Per regular procedures, the CIP budget will be amended with levy and budget adoption in December to reflect more accurate capital project costs.

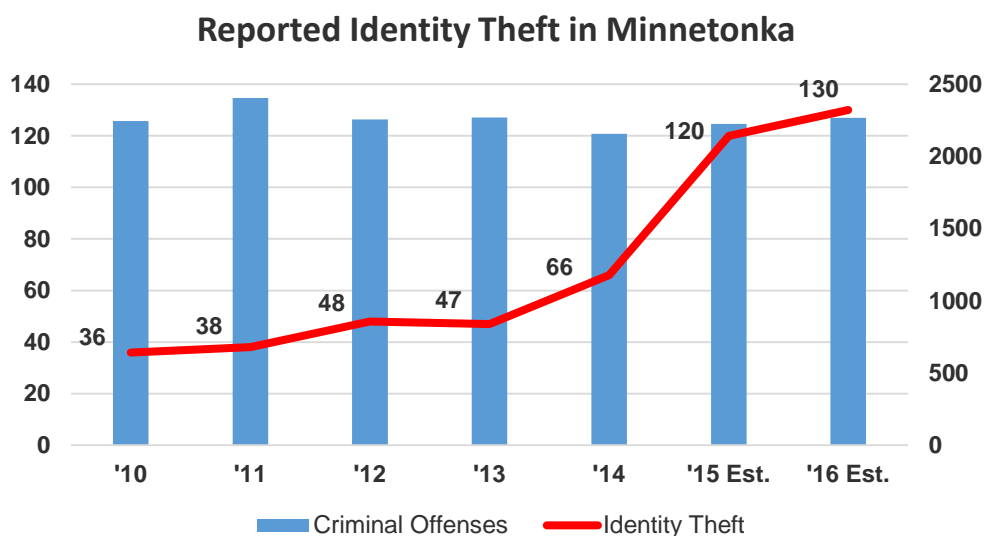
2016 BUDGET

At a cost of \$31.8 million and financed with multiple sources of revenue, the 2016 proposed General Fund operating budget is limited to 2.3 percent greater than the 2015 adopted budget. The new funds will be strategically used to:

- right-size our public safety staffing to meet the challenges of increasing identity theft crimes and to serve a more robust retail environment;
- ensure we appropriately provide and keep up with all training requirements needed by a fully prepared suburban paid-on-call fire force;
- provide suitable care of our improved public landscapes and streetscapes to uphold our community's commitment to value our natural environment;
- make sure the city continues to be responsive and efficient to development needs as the economy continues to improve; and
- maintain our excellent workforce by investing in their recruitment, development and retention in an increasingly complex and heavily regulated human resource environment.

The security and protection of the community and our citizens continues to be of highest priority, and the 2016 city budget reflects those values by devoting over one-half of the new dollars in the 2016 levy to public safety.

Police Service. The proposed 2016 budget includes funding for one additional case investigator to proactively respond to current and rising demands related to identity and retail theft in the city. Although some criminal activity has remained stable or diminished, yearly statistics show a marked increase in identity theft over the last five years, especially in the last year. At the same time, identity theft and other crimes such as fraud have become more sophisticated and therefore are more complicated and time consuming to investigate. There have been several cases of identity theft and fraud in Minnetonka with losses totaling over \$1 million. This trend is expected to continue.



An additional investigator will provide resources needed to handle these growing numbers of cases, and the position will afford the police department the opportunity to

more appropriately delve into a greater number of cases than would otherwise be possible due to limited staffing levels.

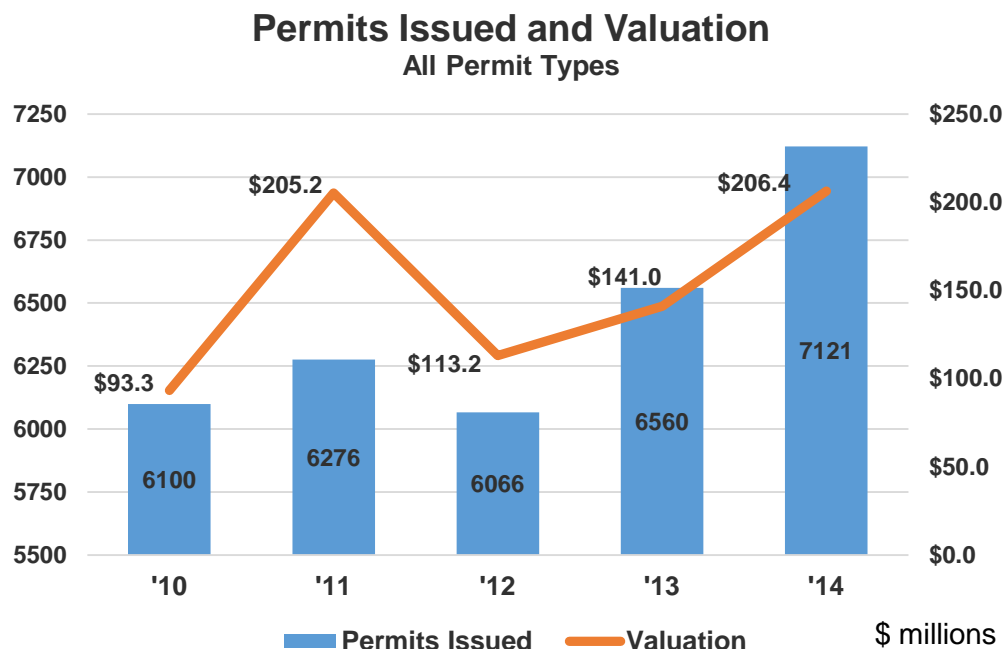
Fire Service. The 2016 budget for the fire department includes one additional full-time position to ensure ongoing, stable administration of the rigorous and complex training required to maintain a strong and capable suburban fire force. The new training officer will absorb the work that has been carried out by two paid-on-call (POC) firefighters since the city's reorganization and downsizing during the Great Recession. Experience has shown that despite great diligence in providing an efficient and high quality training program, part-time firefighters and their POC positions, with requisite work time limitations under the Affordable Healthcare Act (ACA), are unable to support the time and undertaking needed for this essential responsibility. By making sure a grounded position is dedicated to this vital function, the city will secure its ongoing commitment to the paid-on-call fire force structure along with the great efficiencies it bears and the 85 firefighters who serve the city of Minnetonka.

The 2016 capital levy also includes new significant funding for repairs, maintenance and update of two of the city's five fire stations. Originally built in 1976 and 1987, renovations are required to protect these important city assets and make the stations safe for occupation and efficient for the city's current fire force structure and training needs.

Streetscapes. The 2016 proposed budget also includes additional funding to supplement the city's contractual resources dedicated to maintaining the trees in our streetscapes and landscaping along public rights-of-way. City employees will continue to be supplemented by the cost-effective use of ICWC crews in a number of areas, but the availability of these crews has been found to be limited.

Additionally, as neighborhood roads are revitalized, resident expectations have increased to ensure boulevard trees are appropriately cut back and cared for. The natural resources division will be charged with overseeing the tree trimming along neighborhood roads to see that appropriate measures are taken to preserve our street-line arbor's health.

Development. Workload in the community development department continues to expand as a result of the economy's improvement with pressures from an increase in new development requests and construction permitting. In the two-year period since 2012, the number of permits issued by the city has increased by over 17 percent. While this is positive news, keeping appropriate staffing levels to provide timely customer service continues to be a challenge.



The city of Minnetonka operates under the general guidance that development pay its own way, which serves the city well. As economic activity and development has risen over the past few years, the city has supplemented its inspections staff with the flexible use of part-time, multidisciplinary trained inspectors and overtime. However, because the demand for services is now resulting in a noticeable increase in wait times for inspections and permits, the 2016 budget includes funding for one additional full-time inspector, which will be offset by the revenues the activity generates.

Under that same guidance, the city's levy will include 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.

Human Resources. Because the city is a service business, workforce-related changes and mandates, including new administrative requirements of the Affordable Care Act (ACA), have a major impact on the city's work and finances. Over the past number of years, changing demographics, retirements and generational workplace transformations have increased the challenges and demands upon human resource management. The additional levy in 2016 provides the budget for one additional human resources employee to ensure the administration can appropriately support the services levels required by the current turnover, continuing staff development needs as well as mounting complexities in health care and other legal provisions including the ACA.

The city employs 241 full-time and regular part-time personnel, 80 POC firefighters, and approximately 400 seasonal employees. At the end of 2014, 36 full-time positions or nearly 16 percent of the city's employees, were anticipated to turn over before the end of 2017. On top of these challenges, mounting complexities in health care and legal

mandates are demanding more time than the current two-person HR staff can accommodate. In addition to general support for hiring and development, the new position will coordinate ACA reporting mandates for which the clock began October 2014 and for which data must be collected and analyzed monthly and reported annually beginning in 2016. 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.

Personnel Expenses. The city will be negotiating two new 2016 contracts later this year with police officers and police sergeants, because the current contracts for those employee groups expire at year end. The labor agreement with public safety dispatchers expires the end of 2016 and public works personnel the end of 2017. Information currently indicates that there may be some market wage pressures from settlements in our comparable cities, if not for 2016, then likely for 2017.

Health care premiums are slated to 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 prior years. The city's contribution is expected to increase to help partially offset these premium increases. As a member of the LOGIS consortium, the city is currently involved in studying the implications of moving toward self-insuring for 2017.

Bassett Creek Watershed Management Tax District. Minnesota state law requires special taxing districts to adopt a preliminary budget and tax levy by September 15 of each year. A preliminary tax levy of \$27,536 for the Bassett Creek Watershed Management District for levy in 2015, collectible in 2016, will fund the city's expenses for that tax district.

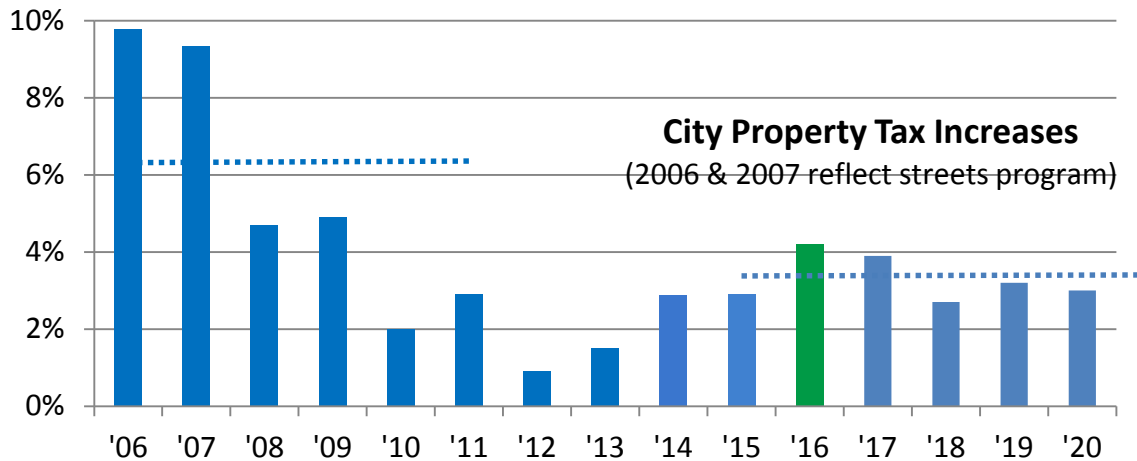
2016 PRELIMINARY LEVY

The 2016 proposed operating and adopted capital budgets will require an ***increase in the city property tax of 4.0 percent***. Of this overall increase, 2.0 percent is associated with financing the first year of the city's 2016-20 capital budget, which was adopted by the city council in May 2015, and 2.0 percent is associated with the General Fund operating budget. (Another 0.2 percent increase for the HRA levy will be discussed and adopted by the council acting as the city's Economic Development Authority later this evening.)

Operating budget	2.0%
Capital program	2.0
<i>Total levy increase</i>	<i>4.0%</i>

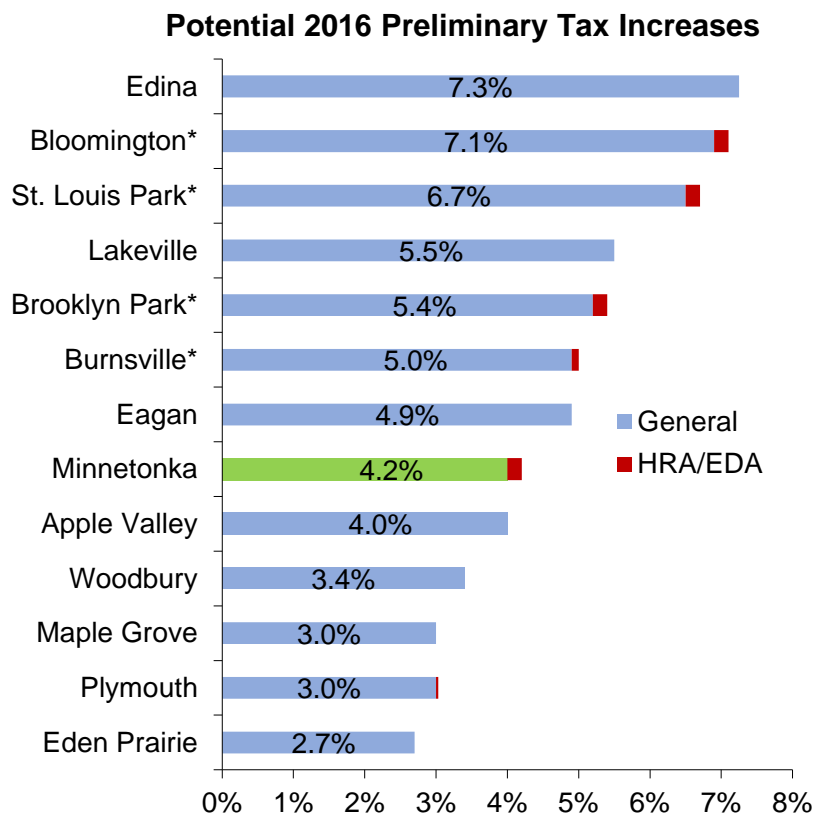
Overall inflation is exceptionally low this year, currently 0.4 percent nationwide, 0.5 percent in the Midwest, and this has significantly helped to keep the city's projected operating costs low for 2016. Almost all of the proposed operating budget and levy increase is associated with the requested new positions and keeping up with

streetscaping and landscaping care as outlined above. A significant decrease in the price of fuel is forecasted to continue into 2016, and therefore meaningful savings are garnered with reductions in the city's budget for those costs across all programs, which will serve to offset the increases.



As a result the city's 2016 tax increase of 4.0 percent, plus an additional 0.2 percent increase for the HRA levy, is in keeping with our recent history of increases *below historic averages*. Included in these projections are the new tax abatement levy for Ridgedale Mall to begin in 2016 at \$26,000, which is offset by an increase in tax capacity, and in 2017, the referendum debt levy for the final \$2.5 million referendum bonding for the Cullen-Smith open space property purchase.

Comparisons with Other Cities. The proposed 2016 city levy increase is likely to place Minnetonka in the middle of comparable cities. The levy variable changes amongst these communities is related to a diversity of reasons including new or retiring debt, additional staffing, reductions in liquor store revenues, and capital needs. Some of comparable communities with lower increases likely are those that are not built-out like Minnetonka and therefore have extensive new development.



* Denotes comparable cities that receive Local Government Aid (LGA).

Further, four of the comparable cities listed continue to receive an allocation of LGA, which began in 2014. As has been the case for over a decade, Minnetonka does not and will not receive LGA in 2016. 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 significantly increased the city's property tax base last year as reported in March by the city assessor. Overall the city's assessed market value increased by 5.8 percent, a significant proportion of which was the consequence of actual improved real estate as opposed to market forces alone.

In addition, commercial property values improved at a greater rate than did residential properties during the period. As a result, **city property taxes for the median-valued home in Minnetonka (\$317,800 in 2015) will more than offset the proposed preliminary levy increase and will decrease by around 4 percent.** At the same time, property taxes for commercial parcels are forecasted to remain flat.

RECOMMENDATION

Responsible long-term financial planning has continued to position the city of Minnetonka to accommodate the slow economic recovery and federal and state political uncertainties, while appropriately providing services to city residents and businesses. The preliminary city tax levy will be limited to an overall increase of 4.0 percent for 2016, with another 0.2 percent for the HRA levy if adopted by the EDA later this evening. This increase is around the middle of comparable cities. It ensures our position of fiscal responsibility, preserves our standards of excellence, and encourages innovative and creative thinking.

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 2016 and well into the future.

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

- 1) Resolution setting a preliminary 2015 tax levy, collectible in 2016, and preliminary 2016 budget
- 2) Resolution setting a preliminary 2015 tax levy, collectible in 2016, for the Bassett Creek Watershed Management Tax District

Originated by:

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