

City Council Agenda Item #14A
Meeting of December 4, 2017

- Brief Description:** Items relating to the 2018 operating budget and levies
- 1) Public consideration of proposed budget and levies
 - 2) Resolution adopting a budget for the year 2018, a revised budget for 2017, and setting a tax levy for the year 2017, collectible in 2018, amending the 2018-2022 Capital Improvement Plan, and consenting to a special benefit tax levy of the Minnetonka Economic Development Authority
 - 3) Resolution setting a tax levy for the Bassett Creek Watershed Management Tax District for the year 2017, collectible in 2018

Recommended Action: Receive public comment on proposed budget and levies, and adopt the resolutions

Background

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 over the years, the city of Minnetonka has always welcomed and encouraged public input on its decision 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 feedback addressed to city staff regarding the proposed budget and levy this year has been minimal. As previously provided to council, only one was received prior to the November study session, and as of the drafting of this letter, no others have been received. If any new written comments are received just prior to the evening's council meeting, they will be provided as an addendum to this agenda item.

The purposes of this 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 2018 budget and associated tax levies, which must be certified to Hennepin County by December 27, 2017. If substantial

changes are needed based on feedback this evening, adoption may be delayed until the council's December 18 meeting.

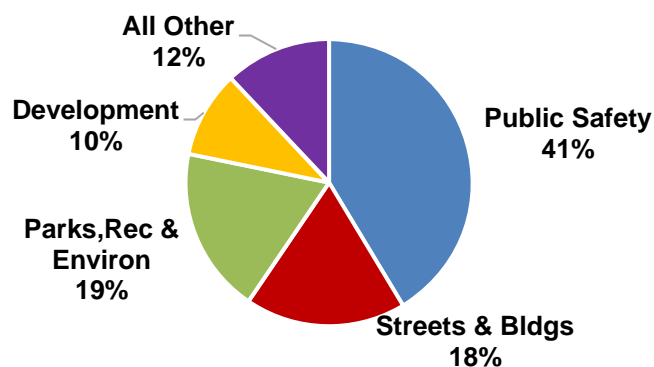
At its previous August 21 and November 20 study sessions, council reviewed proposed 2018 budget targets. Within those targets, the 2018 proposed budget and revised 2017 budgets include all financial requirements for transitioning 9-1-1 dispatch services to Hennepin County. Furthermore, the 2018 budget employs intentional reductions to offset greater wage and inflationary pressures than the city has experienced in recent years. And finally, it incorporates new administrative costs associated with public sector legal compliance and the city's intensified capital efforts, including bonding as well as park and trail planning. As a result, the proposed final budget presented here will require **a property tax levy that is only 3.6 percent greater than the current year.**

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. Staff estimates that the adopted levy will **increase city property taxes for the median value home in Minnetonka (\$332,800 for 2018) by less than \$4 per year.**

2018 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. Nonetheless, a decrease in the budget for these services incorporates moving dispatch services to Hennepin County. Increases in other areas of the operating budget reflect 1) intensified **park and trail planning**, 2) workload associated with **public information requests** and archival, 3) expansion of **technology** service needs, particularly in the area of public safety, and 4) **financial oversight and coordination** of larger and more complicated capital budgets.

2018 General Fund Operating Budget



GF Spending (000s)	2017	2018	Change
Public Safety	\$14,224	\$14,051	\$(173)
Streets & Facilities	6,128	6,159	31
Parks, Rec & Environ	6,084	6,358	274
Development	3,175	3,319	144
All Other	3,707	4,080	373
Total General Fund	\$33,318	\$33,967	\$649
			1.9%

Public Safety

Police. The 2018 budget for the police department incorporates the addition of 3.4 full-time equivalent (FTE) positions that are required to backfill important city-specific ancillary duties that are currently provided by the city's public safety dispatchers but will not be provided by the Hennepin County dispatching services. The backfilled services to be provided by the new positions include records data entry, facility video monitoring, and a number of explicit police operational functions.

At the same time, School District 287 elected to eliminate one of two school resource officer positions at the West Education Center in the fall of 2017, reducing the number of city police officers by one FTE. There is no budget impact since the district had reimbursed the city for expenses related to the position.

The 2018 budget continues to include funding for its sworn Community Engagement Officer. Newly assigned in 2017, the position will also continue to serve as a direct liaison with other city departments, working closely with the departments on quality of life issues within the community as well as on prevention and response for public safety related issues that may develop. Plus, the budget continues to include regular operating costs of the police, fire and public works departments to conduct Night for Neighbors in the city of Minnetonka.

Fire service. As was introduced in previous council deliberations, the 2018 budget includes funding to engage a consultant to continue to address the challenges of recruiting and retaining our efficient and effective paid-on-call (POC) fire force. The department experiences a turnover rate of approximately ten firefighters per year, which requires ongoing training and equipping. The consultant will recommend improving the method and priority for deployment of fire services in the city, including service level objectives to be considered, refined and adopted.

Public safety facility project update. Under a contract approved by the city council in June 2017, both the police and fire departments continue work on designing plans for

remodeling and expanding the police station and a new fire station. The revised 2017 budget reflects the additional funds of \$1.5 million approved by council in June 2017 for the costs of the architectural design consulting contract. The initial source of funding is an internal loan from the Special Assessment Construction Fund.

Staff across the two departments are engaged in the process, and public works staff have begun work with its engineering consultant to determine final costs and requirements for moving the watermain attached to the well located in the new building's vicinity for which \$2 million from the Utility Fund is currently budgeted. In order to fully inform and reach out to the community, the project has been featured in three issues of the *Minnetonka Memo*, a number of social media feeds, and at the city's farmers' market and its Open House in October. Education and opportunities for further public input will continue in 2018. Finally, staff have begun to clarify the steps required to request a sales tax refund for the project's construction materials during the 2018 state legislative session.

As approved by council, the 2018-22 Capital Improvements Program (CIP) anticipates a general obligation bond sale in March of 2019 to finance the estimated \$25 million project. Debt service would not begin until 2020, and staff estimates it would require a property tax increase of less than one percent at that time. Any operational cost changes associated with the new facility would not be needed until its completion, which is currently anticipated to be built for move-in by the end of 2020 or beginning of 2021.

Streets, Utilities and Facilities

Road programs. The 2018 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 \$49.6 million in 2018, over one-half of all city resources continue to be dedicated to this core responsibility. Minnetonka's adopted and amended CIP for 2018 includes major street, storm water, and water utility reconstruction along with electrical line burial and street light improvements on Woodhill Road. Scheduled milling, overlay and refurbishment of various other streets and neighborhoods throughout the city include Old Excelsior Blvd, Ford Road, and Williston Road. The 2018 capital budget also includes nearly \$4.8 million in funding from various sources, including Municipal State Aid and the Utility Fund, for city infrastructure and bridge improvements in the Opus area in anticipation of needs associated with and complimenting the Southwest Light Rail station. Another \$720,000 is appropriated for street improvements associated with the Shady Oak Light Rail station.

Water and sewer utilities. The long-range financial plan for replacement and repair of the city's water and sewer infrastructure continues into 2018. While a substantial portion of the work is associated with much of the city's road program, the 2018 adopted capital budget also includes significant funding for other critical system updates, including the Williston lift station rehabilitation, system sustainability requirements of

water treatment plants, ongoing infiltration and inflow reduction projects, large equipment replacement and repair/replacement of the city's fire hydrants.

As part of the adopted financial plan, council approved significant water and sewer rate increases over the last three years, and the city anticipated lower annual increases thereafter over the next thirteen years. Staff recently worked with our consultants and have updated current financial projections for the enterprise. As a result, the 2018 budget and the following projected years of the system's long-term plan require only a 3.75 percent increase in water and sewer rates to be effective with bills beginning January 2018. Council will deliberate and hold a public hearing when staff requests these rate increases at its next meeting on December 18.

Buildings. In 2016, the city's new buildings manager worked with consultants in developing a comprehensive inventory of both current and long-range space needs for municipal programs and associated staff that office out of city hall. As a result, the adopted 2018-22 Capital Improvements Program (CIP) includes a \$4.5 million project over three years (including 2017) to overhaul and refurbish these areas to accommodate the future needs of serving the public, organizational management and the city's workforce, all within the current building footprint. At a cost of \$1.65 million in 2018, the first construction phase of the project will require careful temporary relocation of employees to ensure ongoing capacity to appropriately meet customer needs.

Electricity. In a significant move to combat increasing costs of electricity, the city has negotiated contracts with privately developed solar gardens that are already realizing cost savings to the city in 2017. Staff are directing those savings first to property tax supported (General Fund) expenses, which account for approximately 36 percent of the city's electricity bill. The 2018 budget assumes significant savings across the city in electrical costs for all its facilities and parking lots. Actual savings during the first six months of next year will be used to more accurately revise budgets in the fall of 2018 as needed.

Parks, sidewalks & trails. In deliberating the 2018-22 CIP, the city council continued to recognize the community's increasing need and desire for improvements to the city's trail system for health, safety and transportation reasons. The 2018 capital budget includes funding to construct an additional 1.1 miles of trails with a new segment on Plymouth Road between Amy Lane and Hilloway Road and another associated with the reconstruction of Woodhill Road. Initial design work has begun on the continued trail along Plymouth Road further north.

Coordinated planning for trail amenities alongside park and recreation facilities, new development and transportation corridors is essential. The 2018 budget includes funding for a park and trail planner in Minnetonka Recreation Services. The new position will administer all planning for updates of some of the infrastructure built during the park renewal and open space nearly twenty years ago, staying abreast of changes

in recreational trends relative to the types of leisure activity desired, including pickleball, more and safer trails, and mountain biking trails. The work of this new position will be key as the 2018-22 CIP includes additional park amenities as contemplated in the Ridgedale area vision plan and in the Opus area.

Natural Resources

Staffing. Conservation and preservation of the community's natural resources continue to be of high priority to the city's residents as consistently demonstrated by the results of our annual community survey. The 2018 budget includes a funding shift at no additional cost from consulting to support the addition of a permanent part-time inspector, 0.75 full-time equivalent (FTE) to accommodate the city's significant workload for permit reviews, site and erosion control inspections and easement monitoring. Volunteers serve a critical function for the city's natural resources programs, especially for the removal of invasive species, and staff continues to coordinate nearly 2,000 volunteer hours annually.

Forestry. The 2018 budget continues implementation of the Emerald Ash Borer (EAB) program. Although the EAB has not been officially found within Minnetonka, it has arrived less than two miles away from the city and just outside both our north and south borders. Therefore, in anticipation of the eventual demise of the city's ash trees, which are estimated to number 60,000 in our community, natural resources staff continue its pre-arrival work. The plan includes ongoing removal of vulnerable ash trees, replacement with diverse native species, and treatment of a small cadre of high value ash trees. A modest annual appropriation and levy continue to be included in the annual budget for the Forestry Fund, and monies not spent accumulate by design in the fund in order to ensure the city's readiness for the certain nearly simultaneous death of our ash tree population.

Environmental Fund. The city's Environmental Fund finances not only curbside recycling but also other important renewable/reusable programs including the city's yard waste drop off program. Because the programs are significantly funded by charges to residents through their utility bills, it is important that the fund be structurally balanced with revenues supporting costs over the long term. At the council's meeting on December 18, staff will be requesting a very modest rate increase for 2018 from \$4.10 to \$4.15 per month. The city's current contract for recycling will expire at the end of 2018 and staff anticipates discussions with our vendor regarding the options available if the contract is extended.

Approximately one-third of trash is now composed of organic matter but less than two percent of households have organic collection services. In order to meet the 2030 state goal to recycle 75 percent of waste generated, Hennepin County will be assisting cities with SCORE grant monies to promote organics collection services. A grant of \$4,108 from Hennepin County in 2017 resulted in the signing up of 60 new households for

organics recycling. Grant monies received in 2018 will have an increasing dependence on residents that separate organics from the general refuse waste stream.

Recreation

Joint Recreation Program. The city of Minnetonka maintains a joint recreation services program with the city of Hopkins, which has for many years reaped benefits for both communities by offering a greater range of recreational opportunities, an expanse of facilities for all of the shared programs as well as cost efficiencies and depth of quality that would not have been available to each on its own. The net cost of the shared programs is split between the cities, Minnetonka funding 67 percent and Hopkins 33 percent.

While all general administration is housed and employed by Minnetonka, in previous years each city directly hired all part-time salaried personnel for playgrounds, warming houses and park attendants as related to specific facilities in each location. In 2018, Minnetonka will hire all positions and will be reimbursed by Hopkins with an additional five percent added for administrative costs. The budget for these additional costs, which are more than offset by the revenue from Hopkins, is included within Joint Recreation services. This revised administrative structure will result in greater efficiencies in the hiring process and create additional management staffing advantages across the two cities.

Ice arena. Operational changes designed to improve the ice arena's budget include council's direction to advance a \$1.8 million capital project to replace Ice Arena A's refrigeration and dasher board from 2018 to 2015. As a result of the renovation project and a staffing reorganization, staff has realized significant operating costs reductions. 2016 actual costs were over \$133,000 below actual 2014 numbers, and operating revenues more than covered operating expenses. This positive fiscal position has continued into 2017 and is forecasted for 2018. The annual \$50,000 General Fund subsidy will remain in place to enable ongoing resolution of the facility's negative cash position of approximately \$436,000 at the end of 2016, which is an improvement from 2015, and towards an appropriate operating reserve balance.

Williston Center. The 2018 budget for the city's fitness center reflects continued forecasted strength in the enterprise's financial position. After again ending 2016 in a positive position even after accounting for depreciation, the facility continues to cover the costs of all operating expenses and capital investments, including replacement of the pool light fixtures to upgraded LED luminaires and new carpeting in the center's lobby. Staff continues to evaluate program offerings and user fees on an ongoing basis to ensure that the community continues to enjoy the benefits of this important asset in a self-sustaining manner.

Development

As has been discussed over the last several years, workload in the Community Development Department continues at a high level. Even with an additional full-time inspector approved for the 2016 budget, the department continues to supplement inspections by hiring part-time staff. The 2018 budget for the department includes additional funding to increase the hours for one of the permanent part-time community development technicians from 26 to 32 hours per week. The higher incremental cost reflects the additional price of benefits. Filling this critical position with the extra hours is necessary to ensure timely customer service and response.

For the third and final year, money in the 2018 planning division budget (General Fund), is allocated for the preparation of the city's 2040 comprehensive plan. In 2018, the amount allocated for the project is \$85,000, which brings the three-year total to \$245,000. As in prior years, project funds not expended in 2017 will be transferred at year end to the Development Fund to ensure completion of the project.

As the city council is aware, the council acting as the Economic Development Authority preliminarily adopted \$250,000 in the Housing and Redevelopment Authority (HRA) levy for 2018, an increase of \$75,000 from 2017. Of that amount, \$75,000 is to continue for a third year the 10-year payback to the Special Assessment Construction Fund (SACF) for the city's commitment to the Southwest Light Rail Transit project. The remaining portions of the levy will serve as continued support for the city's two housing loan programs (\$75,000) and Homes Within Reach/WHAHLT (\$100,000).

All Other

Human resources and internships. Because the city is primarily a service business, workforce-related legislation has a significant impact on both the city's work and its finances. As discussed at previous council sessions, management has been able to take advantage of a slight decrease in health insurance premiums in 2017 to restructure the city's contribution tier structure to aid in controlling the city's experience rating related to health insurance. The change will also address our recent experiences of losing candidates for key positions due to this critical benefit issue.

The 2018 budget also includes a second phase of temporary one-time funding to outsource the update of all city of Minnetonka job descriptions. The work will ensure that the city is in compliance with employment laws enacted or changed over the last ten years.

Although most of the city's departments have employed interns for many years, staff recently created a formalized internship program that will be implemented in 2018. This program will carefully monitor work and service experience in which a student has intentional learning goals with hands-on training that parallel the structured work

environment that Minnetonka can offer to promote academic and career development. This program will also benefit the city by assisting with department work demands, specialty projects and creating additional recruitment exposure for future vacancies.

Technology. As discussed in an earlier section of this report regarding public safety and dispatch services, one of the nine positions lost would be the currently vacant 9-1-1 communications manager job. In addition to supervising the dispatch operations, this position performed crucial public safety technology and radio system tasks. The city's PSAP (Public Safety Answering Point) study recommended splitting technology related tasks from the supervisory position and adding one additional information technology staff member to the city IT division. The addition, which is included within the 2018 budget, will also ensure that the growing technology needs of the city and both the police and fire departments are met. Staff had recommended this position regardless of the decision on the provision of dispatching services.

Public recordkeeping and information requests. Minnesota state statute closely governs the management of public records, and the city has been continually challenged to comply with these requirements on an ongoing basis. These records are not only needed for use by staff; in the majority of open record request cases, they need to be accessible to the public. Over the years the city has invested in both technology and electronic storage capacity to host records and, in many examples, to continually create records.

In the last several years, the city has experienced an exponential increase in demand for immediate electronic information and data, both by the public and the media. By default, these data requests have been fielded by some of the city's more highly compensated employees who spend inordinate hours of time to appropriately search and legally scrutinize the city's archives to redact and respond responsibly.

Because these requests are on an upward trend and, in anticipation of even greater mandates that have bi-partisan support from the Minnesota Legislature for more transparency, staff recommends adding front line staffing to manage this process. The proposed 2018 budget includes funding to hire a records specialist to address this required government service. The new position would assume the laborious duties of archiving and indexing records, plus develop and administer more efficient data systems and procedures to improve the city's response to data requests.

Finance. Since 2005, the city's five-year capital program has grown by two and a half times from \$60.6 million for the 2005-09 CIP to \$149.4 million for the 2018-22 CIP. Similarly, the complexity of financing city projects has intensified as well. For example, issuing debt and accounting for such expenditures requires greater and more careful accounting, investing and reporting under current federal laws and banking regulations. The former CIP included only \$12.3 million in bond proceeds, and the current CIP now includes \$55 million in bond proceeds.

Because the number of accounting finance department staff has remained constant since prior to 2005, much of the capital expenditure oversight has been carried out by non-finance personnel in other city departments. The complexities of the work is now pressing those other departments to request significant assistance. Therefore, the 2018 proposed budget includes funding for one new finance analyst position.

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 2018 budget includes a 40 percent *Budget Stabilization Reserve*,¹ which will accommodate one-time funds to be used to purchase capital equipment and costs of the civic center renovation. Current gross revenue estimates for this year are generally in line with forecasts provided in August. Current expenditures portend that final costs will likely be down from those indicated within the budget document as in recent past years, even with adjustments made for the additional expenses required to accommodate transition costs for dispatch employees through the end 2017. As a result, the city is likely to experience funds remaining on the bottom-line above the approximately \$33,800 currently estimated.

As in previous years, the remaining unassigned fund balance is currently obligated to support transfers planned over the following four years of the adopted five-year CIP. Any additional "bottom-line" funds realized at the close of 2017 above that currently indicated will likely first be obligated to ensure that the Budget Stabilization Reserve will cover rises in annual operating costs to maintain the 40% reserve. Assignment of any remainder would be discussed at the April 2018 CIP study session.

2018 LEVY

The 2018 proposed operating and adopted capital budgets will require an increase in the city property tax of 3.6 percent. The change is the net effect of staff's consistent search for alternative revenue sources like grants and partnerships; budget reductions

¹ See Appendix G, "Relevant Financial Policies" in the 2018 budget document for a more complete explanation of the *Budget Stabilization Reserve*.

and savings; net savings from the Hennepin County's dispatching that would offset a 3.8 percent increase that would be required to maintain current services; a 1.4 percent increase for new operating needs; and a 1.2 percent increase associated with the adopted CIP. The HRA levy would be an additional 0.2 percent increase (\$75,000).

Levy (thousands)	2017	2018	Change
City property taxes, current services	\$35,658	\$37,069	3.8%
Hennepin County dispatch		(713)	(1.9)%
Budget reductions, savings		(349)	(0.9)%
New needs, initiatives		532	1.4%
Capital program increase		421	1.2%
<i>Subtotal</i>			<u>3.6%</u>
Voter-approved bond debt increase		64	0.2%
Ridgedale tax abatement decrease		(61)	(0.2)%
<i>Subtotal, after dispatch change</i>		\$37,676	<u>3.6%</u>
Final for tax notices	\$35,658	\$36,963	<u>3.6%</u>
HRA	\$175	\$250	

Homeowner Impacts. Staff calculates there will be only the slightest impact to the amount of property taxes paid by the median-valued home in Minnetonka (\$332,800 in 2018). Using the average increase in assessed market value (2.7 percent), as reported by the city assessor last spring, the median-valued home will experience a rise in property taxes of only \$4 for the year. The proposed increase in the HRA levy will appear on tax notices combined with "other special districts" and will account for an approximate additional \$3.

Staff anticipates the proposed levy increase will be offset by several factors. First, new development and redevelopment in the city increased the city's property tax base last year. Overall, the city's assessed market value increased by 5.2 percent, a portion of which was the result of actual improved real estate as opposed to market forces alone. Second, the residential and commercial proportions of the city's tax base both declined relative to apartment properties, with residential at its lowest percentage since the 2003 tax year. This will cause slight shifts in the property tax burden away from both commercial and residential to apartments. And lastly, for the first time in recent memory, Minnetonka's net negative share of the fiscal disparities property tax base declined, which will result in a net tax base increase for the city.

It is critical to be mindful that the city of Minnetonka accounts for only a little over one-quarter of a homeowner's total property tax bill. The remainder is attributable to taxes levied by school districts (32 percent), Hennepin County (32 percent), and other jurisdictions (8 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.

RECOMMENDATION

Staff recommends adoption of the attached resolutions to increase the property tax levy by 3.6 percent in order to support the 2018 budget and to levy the city's 2018 share of the Bassett Creek Watershed District allocated cost requirements. Adoption of the general levy resolution would also formally accede to the Economic Development Authority's action tonight whereby the Housing Redevelopment Authority (HRA) levy would increase by \$75,000. At this rate, the median value home in the city will experience an increase of less than \$4 for the year in city property taxes and an additional \$3 per year for the HRA levy.

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. With these negligible annual increases in cost, 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 2018 and well into the future.

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