City Council Agenda Item #14
Meeting of September 25, 2017

Brief Description: Items related to the 2018 preliminary tax levy

1) Resolution setting a preliminary 2017 lax levy and preliminary 2017 HRA levy, collectible in 2018, and a preliminary 2018 budget, and consenting to a special benefit tax levy of the Minnetonka Economic Development Authority

2) Resolution setting a preliminary 2017 tax levy, collectible in 2018, for the Bassett Creek Watershed Management Tax District

Recommended Action: Adopt the resolutions

As discussed at the city council's August 21 study session, the proposed 2018 levy and budget presented herein is consistent with the city of Minnetonka's strategic goals and community values. Capped at a maximum preliminary levy increase of 3.6 percent above the current year, the proposed budget employs intentional reductions to offset greater wage and inflationary pressures than the city has experienced in recent years. It also 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. And finally, it anticipates implementing the council's direction to contract with Hennepin County for 9-1-1 dispatch services should the arrangement be approved by the county board tomorrow, September 26, 2017.

Staff proposes adopting a resolution this evening to accommodate this one-day delay in Hennepin County's expected approval of the agreement. In the unlikely event that the county does not act before the statutory preliminary levy deadline of October 2, staff would recommend setting the preliminary levy at a level that is 5.5 percent above the current year to ensure ongoing administration of the city's dispatch center. While staff anticipates the final 2018 levy would still drop to an increase of only 3.6 percent, the higher level is a safeguard should the county fail to act on the agreement before next fiscal year.

Staff currently estimates that the proposed general levy increase of 3.6 percent will have minimal impact, i.e. $4 for the year, upon the city taxes of the median value residence in Minnetonka ($332,800 for 2018).[1] As always, the exact impact on specific properties can vary extensively related to assessed market value changes different than the average.

[1] Please note, the staff report published September 25, 2017 incorrectly stated the 2018 median home value as $322,800.

The city's eventual proposed levy increase of 3.6 percent is likely to place Minnetonka at the lower end 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 2018. In addition, it's important to continue to note that the city's levy and budget support a financial structure absent of any special assessments to property owners for road-related infrastructure.

Per general city council direction in August, staff also recommends a 0.2 percent overall levy increase for the HRA levy. This would raise the HRA levy by an additional $75,000 to a total $250,000 to support economic development and housing programs. As further directed by council, this proposal incorporates the reappropriation of $25,000 of the 2017 budget into the 2018 budget.

OUR PUBLIC PROCESS

State law requires cities, school districts and other government taxing jurisdictions to certify preliminary budgets and tax levies to the county by September 29, 2017. The city's preliminary levy is the maximum amount we may levy for 2018. Counties then report these preliminary levies to all property owners in early November.

Guided by council's initial discussions in August, staff will develop detailed budget requests for council review in November and final adoption in December. At the November 20 study session, staff will have more complete information regarding revenues and expenses for the current year, along with more accurate information for forecasting 2018. The final 2018 levy may be less than the preliminary amount, but cannot be greater.

Minnetonka always encourages input on its budget from the public. The city council will hold a public hearing when it adopts the final 2018 levy and budget on Monday, December 4, 2017, 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 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,* social media 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 Spending & Financial Projections

Revenues. 2017 revenues are currently estimated to come in around 1.5 percent below the adopted budget forecast. Low investment interest continues to plague the city's revenue stream along with lower public safety fine revenue that is now forecasted to be slightly above last year, but below initial 2017 projections along with several other non-tax sources of revenue.

Nonetheless, staff still estimates that total revenues will continue to cover projected obligations from 2018 through 2022. The long-term forecast responsibly assumes that the currently higher proceeds from development will taper off next year and return to the city's ten-year average.

Spending. Operating costs in 2017 are currently estimated to be at a pace greater than last year. There still remains some significant 2017 costs that are not specifically known at this time, such as the number of snow plow events in early winter and negotiated separation incentives for public safety dispatch employees.

Despite these spending uncertainties, estimates still likely portend some funds available to be either transferred from the General Fund balance for one-time costs within the city's capital program during council deliberation next year or to ensure the fund balance can remain at sufficient levels over the next five years to meet council policy. As we approach the council's second detailed budget study session in November, additional information may adjust these current forecasts.

Between now and the second council study session on the 2018 budget in November, any new data either unanticipated or not currently available will allow staff to further analyze 2017 service cost projections and new revenues. Per regular procedures, the CIP budget may be amended with levy and budget adoption in December to reflect more accurate capital project cost projections and/or altered plans and priorities relative to new information.

2018 BUDGET

Assuming Hennepin County approves the transition of 9-1-1 dispatching services from the city to the county, staff proposes the 2018 General Fund city operating budget total $33.9 million. This total, financed with multiple sources of revenue, is only 1.9 percent greater than the 2017 adopted budget. [2] As a primarily service organization, the city is being significantly impacted by market wage pressures. However, proposed budget reductions identified after careful scrutiny by staff of spending trends plus savings projected to be realized from the city's solar garden contracts will significantly offset the budget increase that would otherwise be required next year.

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[2] If the Hennepin County dispatch agreement is not approved by the county commissioners before the preliminary levy deadline of September 29, the 2018 General Fund operating budget is initially proposed to be $34.7 million, which is 4.0 percent greater than the 2017 adopted budget.

General Fund operating budget ($ thousands):

2017 Adopted	**$33,318**	
Current services	1,157	
Reductions & savings	(349)	
Additions, compliance	532	
Hennepin Co. dispatch	(713)	
2018 Proposed	**$33,945**	*1.9% increase*

Additional proposed spending is comprised of funding for four new positions associated with complying with government open records requests and related public recordkeeping; information technology demands; park and trail planning; and financial oversight of our intensified capital program. Staff also proposes additional funds to further analyze and develop a plan to address ongoing challenges facing the city's paid-on-call fire service structure.

Current services, inflationary personnel cost pressures

Because city government is primarily a service industry, three-quarters of the General Fund operating budget is the cost of its greatest assets, its workers. Commensurately, much of the increase to maintain current level services for our community is to compensate our human resources**.** While our effective relationships with our bargaining units continue to reap both production and economic benefits for the community, the city faces market pressures to retain and recruit these high-valued assets.

The city plans to continue to use a 1.5% base salary increase and review all positions according to its market philosophy structure to ensure that employees are fairly and competitively compensated compared with what other comparable cities pay their employees with similar responsibilities. Market wage pressures on the city of Minnetonka will require an average approximately 3.52 percent total increase in wages in 2018 (base plus market). In addition, two of the city's three labor contracts will expire at the end of 2017 and will be up for negotiation.

As a member of the LOGIS Healthcare Consortium, a guaranteed rate cap for 2018 has been negotiated and is not to exceed a 9 percent increase for health insurance premiums. Since the city structures its benefits package using a cafeteria contribution system, the premium increase is largely borne by employees who enroll in the city's benefit offerings. Using this information, an employer benefit contribution increase has been estimated based upon the insurance package selected. This approach reinforces the philosophy to move from an equitable to an affordable benefits package.

Budget reductions and savings

The city of Minnetonka conservatively budgets revenues and expenses in a manner that balances the economic impact of taxes and fees upon property owners and tenants with ensuring that vital local government services are never interrupted. Nonetheless, staff recognized that the city's overall operating expenditures were more significantly below budget at the end of 2016 than recent prior years. A significant portion of the unspent dollars was directly associated with an unusual weather year that substantially reduced costs for snow-plowing events including labor, energy and supplies. Therefore, staff closely scrutinized *patterns of spending* over the last three years to identify budget reductions where less funding would not affect services.

Including estimated savings from the city's solar garden contracts, staff ascertained a total of nearly $350,000 in budget reductions across city programs to be incorporated into the 2018 budget. The largest of these is a recalibration of fleet costs (labor, materials/equipment and fuel) across all divisions that require city vehicles, which totaled over $168,000 for the General Fund (GF). Solar garden savings to the GF for numerous city divisions are projected at $100,000. Based on spending patterns in recent years, staff is proposing to reduce the budget for contract work overseen by the natural resources division ($55,000) and the information technology division ($25,000).

Fleet maintenance costs (GF only)	$168,600
Solar garden savings (GF only)	100,000
Natural resources contract services	55,000
Technology division contract services	25,000
Total Budget Reductions, Savings	***$348,600***

Budget enhancements

The proposed 2018 budget includes new funding of just over $530,000. The great majority of these costs is for four additional non-management positions.

- one to ensure compliance with public recordkeeping and expanding government data requests;
- one to respond to the growing information technology needs within the city and to offset the loss of the public safety communication manager duties;
- one to respond to a council directive for purposeful planning and public education around the city's growing parks and trails system; and
- the last to administer and coordinate the finances of our capital program which has substantially grown in both costs and complexity over the last ten-plus years.

Public data compliance. 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.

Park and trail planning. Earlier this summer, a subgroup of the city council met to discuss a more aggressive approach to expanding the city's trail system and appropriate funding sources. In addition to system expansion, the group expressed a preference for more enhancements, such public education campaigns, wayfinding, accessibility improvements, and dedicated bike lanes. The subgroup encouraged pursuit of public/private partnerships, government partnerships, easement donations, grants, and more creative funding options.

Planning is an essential component of being responsive to the needs of the users of our park and trail system. During the park renewal and open space process, a tremendous level of planning and community dialogue occurred to renew 45 neighborhood, special use and community parks. Some of that infrastructure is currently approaching 15 years of age. Changes in recreational trends are evident in the type of leisure activity desired, as noted by the huge popularity of pickleball and the heightened public demand for more and safer trails. The current Park and Trail Fund of the CIP includes appropriations for significant trail additions, primarily along county roadways; major park related investments in the Opus and Ridgedale areas; a recreational facilities study; and an unfunded project at Big Willow Park.

City staff structure has changed since park renewal and is presently stretched to the point that it is unable to properly serve these growing demands. Therefore, the addition of a park and trail planner is proposed to suitably address these high community priorities. With a responsible staff member, advances can be made to meet council strategic goals of providing excellent recreational and transportation amenities. This will also assist with achieving *Imagine Minnetonka's* visionary goal to connect all residents to woods and wetlands as well as developing a multimodal transportation plan that will safely connect major pedestrian areas.

Capital program finance oversight. 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, which is nearly a quintupling of such monies in the plan.

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 additional finance analyst position. The addition will bring the department accounting staff to a total of six, including the director/treasurer, controller, accounts payable, accounts receivable and payroll.

IT support. As discussed in the next section of this report regarding dispatch services, one of the nine positions lost would be the currently vacant communications manager job. In addition to supervising the dispatch operations, this position performed crucial public safety technology and radio system tasks. As indicated in the PSAP study, the recommendation going forward was to split technology related tasks from the supervisory position and add one additional Information Technology staff member to the city IT division. Those duties would be absorbed by the entire IT division under a cross training model of service delivery, avoiding compartmentalization of duties with single position incumbents. This addition would also ensure that the growing technology needs of both the police and fire departments are met, including the anticipation of police body camera implementation in 2019. Staff recommends this position regardless of the decision on the future provision of dispatching services.

Fire service operational study. Changing workforce demographics and requirements of the federal Affordable Care Act (ACA) continue to challenge the city and other metro cities to adapt fire service management structures in order to maintain the very high quality and clear efficiencies wrought by our paid-on-call (POC) fire force. Despite ongoing work to address these challenges, the naturally high turnover of these unique positions requires a long-term management strategy. Because the ACA was enacted after completion of a 2010 strategic public safety plan, most of which has already been acted upon, the proposed 2018 budget includes funding to refine specifically the method and priority deployment of fire service provision in the coming years.

The results of the proposed operational study are not expected to affect design of the public safety facility project currently being discussed by the city, as the city's central fire station will be staffed regardless of operating model, and the administration and life safety functions of the facility are unlikely to change significantly. The operational study will provide a better understanding on staffing models and highlight indicators that will appear if the model needs to change. It will assist in determining the priority of services provided to the community and, in conjunction, when and how quickly those resources are deployed.

Dispatch services

At a June study session, the city council discussed an extensive report completed by an outside consultant examining Minnetonka's 9-1-1 public safety answering point (PSAP), a.k.a. dispatch services. The thorough analysis included exploration of detailed costs and service benefits of three alternatives – appropriately staffing the city's current dispatch division (the analysis recommended two additional FTEs in dispatch at an annual cost of $170,000 to do so), contracting for dispatch services with the city of Eden Prairie, and developing an agreement with Hennepin County for dispatch services. After thoughtful deliberation, the city council directed staff to pursue negotiations with Hennepin County for dispatch services.

As several important aspects of transitioning dispatch services to Hennepin County continue to be fully fleshed out, staff has calculated the costs that will impact the 2018 budget as indicated below. At an ongoing operating *<u>net</u> savings of over $713,000* primarily due to the loss of nine dispatch positions, the city must hire a total of 3.4 new full-time equivalents (FTEs) to backfill some of the city-specific ancillary duties that must continue to be performed. Therefore, the proposed 2018 budget includes funding for one records clerk and four part-time community service officer (CSO) positions along with some ongoing minor operating costs. The city will realize another $76,000 in operating savings in 2019 when the city's obligation to the LOGIS technology consortium for dispatch-related technology services has ended.

Additionally, the city will be required to purchase equipment and systems to communicate with county staff, alert and communicate amongst city staff, and monitor alarms that are now covered by the current city-run dispatch system, utilities that will not be covered by the county. Based upon preliminary bids and quotes, staff estimates these one-time conversion expenses will cost almost $175,000. At the same time, there is currently $258,000 in dispatch-related equipment included within the adopted 2018-22 Capital Improvements Program (CIP) that will no longer be required without a city-operated dispatch center. Supported by the Public Safety Fund, these adopted capital funds will more than cover the required one-time costs of conversion and a CIP amendment will be included with the 2018 final budget to do so. Any net savings will be available for consideration with deliberation of the next capital budget in the spring.

Ongoing Annual Budget Adjustments:

City dispatch 2017 operating budget	($890,800)
Four (4) part-time CSOs, 2.4 FTE	84,300
Records clerk, one FTE	77,000
Backfill operating costs	16,200
Total, operating budget reductions	***($713,300)***

One-time Capital Budget Adjustments:

2018-22 adopted CIP dispatch items	($258,000)
Conversion equipment, systems costs	$174,300
Total, Public Safety Fund balance savings	***($83,700)***

Since the August budget study session, staff is near completion of several critical tasks needed to convert dispatch services to Hennepin County in mid-December 2017 as currently planned. First, an agreement was negotiated and agreed upon with the city's own, valued dispatch employees to ensure they are appropriately compensated to stay with the city of Minnetonka until the date of conversion and are treated justly in appreciation for their years of service to our community. Second, staff has almost concluded several fiscal details with Hennepin County related to turning over the city's 9-1-1 fee revenue stream of $67,000 per year and fund balances currently remaining in our coffers from that source.

As a final legal step, the Hennepin County Board must formally act in agreement to take on the responsibility of dispatch services for the city of Minnetonka. On September 12, the county board's public safety committee considered the matter and unanimously voted 7-0 to recommend final approval by the county board on September 26, tomorrow. If all goes as anticipated and the Hennepin County Board approves, a preliminary levy increase of 3.6 percent for the city would be certified to the Hennepin County clerk.

However, because the county's action is slated to occur after the city's action, the wording in the city's levy adoption resolution must account for the contingency of an otherwise unplanned but much later county approval. If the county board does not act before the statutory deadline of September 29, the costs of the city's current dispatch must be included and certified within the city's preliminary budget levy, and another $713,000 (an additional 1.9 percent increase) must be added. (Note this does not include the addition of two dispatchers as recommended in the consultant's study.) In either case, we expect the final 2018 levy increase would be lowered to 3.6 percent when the city council is scheduled to adopt it on December 4.

HRA LEVY

The city's first levy for housing and redevelopment began in 2009. State law limits levies, and the maximum rate is 0.0185 percent of a city's taxable market value. This equals approximately $1.55 million in Minnetonka. Beginning in 2010, the annual levy increased to $175,000 (0.00212 percent) and has remained at that dollar level to accommodate village center master planning, housing programs, marketing efforts, and more recently light rail.

On June 12 the city council adopted the 2018-2022 Economic Improvement Program (EIP), which would have set the 2018 HRA levy at $300,000 (up from its 2017 level of $175,000). The indicated uses of the funds were: Homes within Reach/WHAHLT ($100,000); Southwest Light Rail Transit ($75,000); Housing Loan Programs ($100,000) and Business Outreach ($25,000). The light rail funds have been obligated by the council for a ten-year payback to the city's Special Assessment Construction Fund for a portion of the city's commitment to the project.

The Economic Development Advisory Commission (EDAC) reviewed the HRA budget at its July 27 meeting and recommended adopting *a preliminary HRA levy of $175,000 (no levy increase)*. The EDAC's recommended budget would include Homes within Reach/WHAHLT ($75,000), Housing Loan Programs ($25,000) and for the Southwest Light Rail Transit ($75,000).

At its August budget study session, the city council discussed a preliminary HRA levy below the EIP-adopted plan, which removes funding for Business Outreach in 2018 ($25,000) and sets a 2018 preliminary HRA levy of $250,000 and a 2018 HRA budget as illustrated below:

($ thousands)	EIP	EDAC	Proposed
SW Light Rail	$75	$75	$75
WHAHLT	100	75	100
Housing Loans	100	25	75
Business Outreach	25	0	0
Total HRA Levy	***$300***	***$175***	***$250***

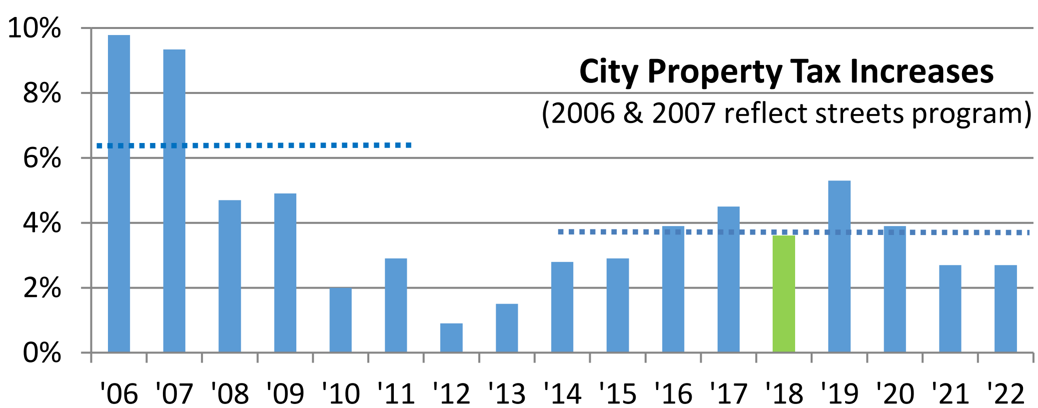
State law requires the city council to adopt a resolution supporting levy actions of the Economic Development Authority (EDA), whether or not the city council also acts as the authority. Therefore, the proposed preliminary levy resolution for the city contains a provision to support the EDA's HRA preliminary levy, which the EDA is to consider and adopt later tonight.

2018 PRELIMINARY LEVY

The 2018 proposed operating and adopted capital budgets will require eventually an overall increase in the city property tax of 3.6 percent. The change is the net effect of budget reductions and savings; net savings from the Hennepin County's assumption of 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%
Subtotal			*3.6%*
Voter-approved bond debt increase		64	0.2%
Ridgedale tax abatement decrease		(61)	(0.2)%
Subtotal, after dispatch change		*$37,676*	*3.6%*
Final for tax notices	***$35,658***	***$36,963***	***3.6%***
HRA	$175	$250	

As a result, the city's proposed 2018 tax increase of 3.6 percent is in keeping with our recent history of increases *below historic averages*. Included in these projections over the next five years are the expected debt service payments associated with selling $25 million GO bonds for new police and fire stations beginning in 2020 as well as the rising but self-funded tax abatement levy for Ridgedale Mall.

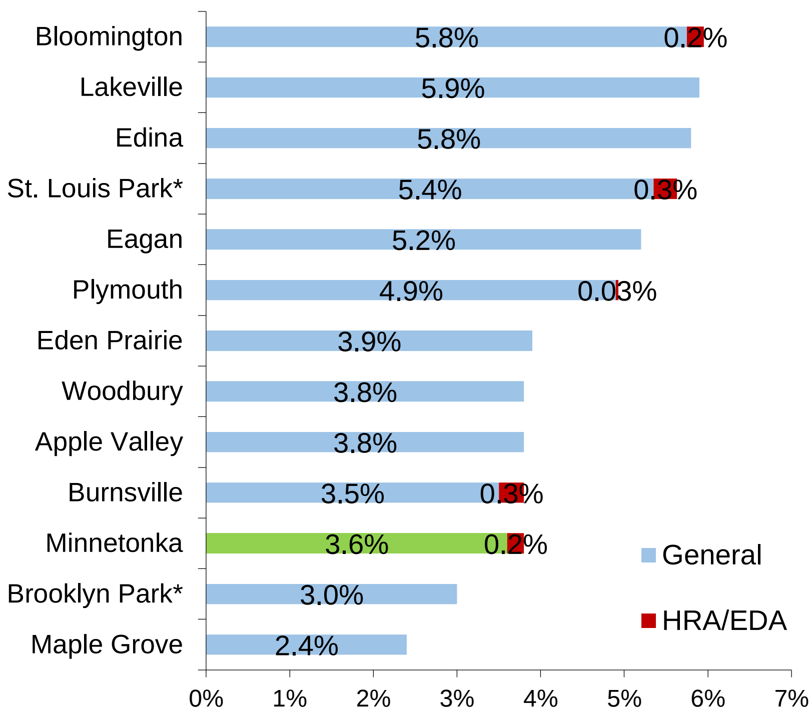


Staff currently anticipates a greater than average levy increase in 2019, and this rise is largely associated with foreseeable heightened costs associated with managing and administering police body camera data. Because council has not yet vetted policy considerations related to the issue and no decisions have yet been made, there may be opportunities to smooth out this aberration with future deliberations.

Comparisons with Other Cities. The proposed 2018 city levy increase is likely to place Minnetonka at the low end of comparable cities. The differences amongst these communities appears mostly to be related to whether cities are adding staff and whether those new costs may be offset with permit revenue increases or debt retirement.

Further, two of the comparable cities listed continue to receive an allocation of state Local Government Aid (LGA), which began in 2014. As has been the case for many years, Minnetonka does not and will not receive LGA in 2018. Equally important, unlike many of these other cities, the city does not rely upon special assessments to fund street reconstruction and maintenance.

Potential 2018 Preliminary Tax Increases



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

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 2017). 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 exact impact on specific properties can vary extensively related to assessed market value changes different than the average.

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.

RECOMMENDATION

Responsible long-term financial planning has continued to position the city of Minnetonka to provide highly rated services to city residents and businesses. If Hennepin County acts on the city's agreement for dispatching, the 2018 preliminary city tax levy will be limited to an increase of 3.6 percent to address market wage pressures of our valuable workforce, ensure compliance with public recordkeeping requirements and capital planning and fiscal oversight. This eventual increase is near the lower end of comparable cities. It ensures our position of fiscal responsibility, preserves our standards of excellence, and encourages innovative and creative thinking. The HRA levy increase would result in a 0.2 percent increase in all city levies.

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 2018 and well into the future.

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

1) Resolution setting a preliminary 2017 tax levy and a preliminary 2017 HRA levy, collectible in 2018, and a preliminary 2018 budget, and consenting to a special benefit tax levy of the Minnetonka Economic Development Authority

2) Resolution setting a preliminary 2017 tax levy, collectible in 2018, for the Bassett Creek Watershed Management Tax District.

Originated by:
Geralyn Barone, City Manager
Merrill King, Finance Director