

City Council Agenda Item #14
Meeting of December 5, 2016

- Brief Description:** Items relating to the 2017 operating budget and levies
- 1) Public consideration of proposed budget and levies
 - 2) Resolution adopting a budget for the year 2017, a revised budget for 2016, and setting a tax levy for the year 2016, collectible in 2017
 - 3) Resolution setting a tax levy for the Bassett Creek Watershed Management Tax District for the year 2016, collectible in 2017
- Recommended Action:** Receive public comment on proposed budget and levies, and adopt the resolutions

The city of Minnetonka follows an open, public process to review and adopt its annual budget. Although the state requirement for a truth-in-taxation hearing has changed 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 low. None was received prior to the November study session, and as of the drafting of this letter, only two have been received, which are attached. 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.

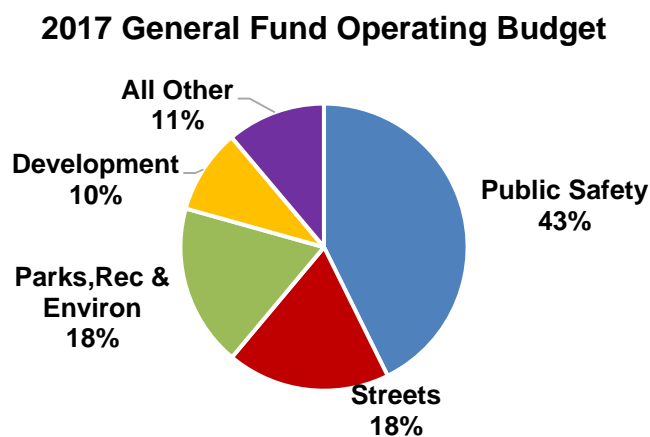
The purposes of this meeting tonight are to provide another opportunity for public input regarding the proposed budget and levies, to make any amendments should they arise due to those comments, and to adopt the final 2017 budget and associated tax levies, which must be certified to Hennepin County by December 28, 2016. If substantial changes are needed based on feedback this evening, adoption may be delayed until the council's December 19 meeting.

Staff recommends increasing the levy by 1.6 percent higher than that of 2016 for current services, including wage and benefit requirements, one percent higher for the adopted 2017 capital budget, and 0.9 percent higher for new funding to appropriately meet new communication, engineering and fire service demands. After including increases for the voter-approved park referendum debt and the self-funded Ridgedale Mall tax abatement, the **total levy would increase 4.5 percent**. This is down from the preliminary total levy increase of 4.9 percent, which was adopted by the council in September.

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 (\$322,600 in 2016) less than \$46 per year**. Note that individual property tax estimates mailed to homeowners earlier this month reflect the higher adopted preliminary levies, which were estimated to increase combined city property taxes for the median value home in Minnetonka about \$52 per year.

2017 BUDGET

The city's 2017 General Fund operating budget continues to reflect the community's clear priorities. Therefore, the significantly greatest proportion is dedicated to **public safety**, which is consistently ranked of highest importance to Minnetonka's residents according to the annual community survey. **Streets** and **natural resources and parks** are ranked as next highest priorities, with development services paying its own way through permit fee revenue.



Similarly, the proposed increase for the 2017 General Fund operating budget is greatest for public safety, primarily reflecting personnel adjustments in the fire service. The

increase for streets is associated with the city's increasingly complex road and utility reconstruction as well as new work on trails and infrastructure related to the Southwest Light Rail Transit project in Minnetonka. The increase for general government services, all other, reflects 1) the growing demand for immediate information via multi-medium methods to residents regarding the city's increasing intensity of road and utility work on city streets and 2) workload associated with the increasingly complex and heavily regulated human resource environment plus costs associated with changing workforce demographics.

GF Spending (000s)	2016	2017	Change
Public Safety	\$13,621	\$14,224	\$603
Streets & Facilities	5,903	6,128	225
Parks, Rec & Environ	5,877	6,084	207
Development	3,038	3,175	137
All Other	3,480	3,707	227
Total General Fund	\$31,919	\$33,318	\$1,399
			4.4%

Public Safety

Fire Service. As was introduced in previous council deliberations, the 2017 budget includes funding to continue to address the challenges of recruiting and retaining our efficient and effective paid-on-call (POC) fire force. The Fire Department will add one additional full-time fire technician position and will restore the current part-time fire inspector position to full-time status. Based on council feedback at the August study session, monies are included to increase the city's contribution to POC deferred compensation and modestly increase the hourly rate paid for POC crew leader shift pay. Finally, the salaries of full-time leadership positions in the department, other than the fire chief, are budgeted to bring them in line with the market.

Police. As a part of the city's readiness efforts and in recognizing our needs to proactively communicate and engage with the Minnetonka community, the police department continues to evaluate its services and programmatic structures. Recent analysis along with current events have led staff to propose that the 2017 budget use current-level funding to modify the assignment of one officer from traffic enforcement over to community engagement. Staff believes that technology developed over the last several years will allow this change without impacting traffic enforcement service levels.

Streets & Utilities

Road programs. The 2017 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 \$45.7 million in 2017, over one-half of all city resources continue to be dedicated to this core responsibility. Minnetonka's adopted and amended CIP for 2017 includes major street, storm water and water utility reconstruction on Crosby Road. Scheduled milling, overlay and refurbishment of various other streets and neighborhoods throughout the city include east Lake Street Extension, Hillside Lane, Lindbergh Drive, south Oakland Road, and west Cedar Lake Road. The 2017 capital budget also includes nearly \$4 million in funding from various sources, including Municipal State Aid, for infrastructure and bridge improvements in the Opus area in anticipation of needs associated with the Southwest Light Rail Transit project.

Staffing. Over recent years, staff has been challenged to effectively communicate and appropriately respond to residents and businesses located in the neighborhoods of these major and disruptive construction projects. Staff has used and will continue to use various strategies including email and text notification, citizen alerts, newsletters, social media, door hangers and magnets with city contact information. Nonetheless, with the uptick in workload anticipated as we begin to ramp up enhancements to the city's trail system as well as the infrastructure improvements brought to bear by the Southwest Light Rail Transit project and the increased workload associated with full utility replacement projects, the 2017 budget includes funding for one additional project engineer and increasing the engineering department's right-of-way technician hours to full-time.

Additionally, the public works department has begun to experience significant difficulties in recruiting necessary seasonal workers. The department normally requires around three to four dozen workers during the summer to accomplish regular road, park and natural resource maintenance that cannot otherwise be accomplished by our permanent employees or the ICWC crews. In order to ensure the needed seasonal staffing levels, the 2017 budget includes additional funding to raise the hourly wages of these workers.

Water and sewer utilities. The long-range financial plan for replacement and repair of the city's water and sewer infrastructure continues into 2017. While a substantial portion of the work is associated with much of the city's road program, the 2017 adopted capital budget also includes significant funding for other critical system updates, including the final planned sewer forcemain lining project from Williston Road to Guillian Field, system sustainability requirements, ongoing infiltration and inflow reduction projects, and repair/replacement of the city's fire hydrants.

Buildings. Over the past year, the city's new buildings manager has 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. Although plan specifics are not quite ready to be rolled out, the 2017 capital budget includes a smaller initial funding stream to begin to accommodate costs of implementing its recommendations. Staff anticipates presenting more information to the council during deliberation of the 2018-22 Capital Improvements Program (CIP).

Electricity. With the price of electricity rising by nearly nine percent over the last three years, in 2015, the city spent over \$1.4 million for electricity. To combat these higher costs, the city has taken a number of actions, not the least of which is the negotiation of contracts with privately developed solar gardens that will realize cost savings to the city beginning in 2017. The first of these gardens will be constructed and operational next year and will result in approximately \$27,000 of savings to the city's 2017 operating budget. Those savings will firstly be directed to property tax supported (General Fund) expenses, which account for approximately 36 percent of the city's electricity bill. Because the construction startup dates for several other solar garden projects for which the city holds contracts have not yet been announced, savings to the city associated with these later gardens are not yet assumed in the budget.

Sidewalks & trails. In deliberating the 2017-21 CIP, the city council recognized the community's increasing need and desire for improvements to the city's trail system. As a result, the adopted five-year capital budget prioritized north-south routes by moving construction of the Plymouth road trail (Minnetonka Blvd to Hilloway Rd) into 2019. Because the 1.4 mile addition is currently estimated to cost as much as \$1.8 million, staff has included an amendment to the CIP in 2016 for \$20,000 to conduct a more detailed feasibility study of the project in partnership with Hennepin County. The results of the study will inform further discussion of the project during council's deliberation of the 2018-22 CIP this spring.

Natural Resources

Water quality management. Following the October 17 council discussion regarding water quality management, the 2017 budget designates money in the Storm Water Fund budget to initiate a fall street sweeping pilot program for added water quality protection and improvements. The pilot program will begin in the fall of 2017, targeting a priority lake area to be determined following the completion of the city's annual 2016 water quality analysis report and the development of a small lakes policy. As the pilot moves forward, the sweeping area will focus on water quality monitoring data collected annually and compared to other areas. Because water quality benefits will not be instantaneously observable, the program will be reevaluated after a pilot period of 3-5 years to determine potential benefits and future funding allocations.

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. Staff is in the process of renegotiating a couple of service contracts associated with the yard waste program. So far, an annual savings of \$50,000 for the 2017 budget has been secured by reducing charges to the city for brush grinding, and another fee reduction may still be finalized in the next month or so for leaf hauling. Although the city's recycling fee is likely to be increased modestly for 2017, these cost savings will be needed to offset the elimination of contract revenue from the sale of recycled materials that began this year.

Forestry. The 2017 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. 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.

Recreation

Ice arena. The 2015 completion of a \$1.8 million capital project to replace Ice Arena A's refrigeration and dasher board has reduced 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. As a result of the renovation project and a staffing reorganization, management estimates that operating costs in 2016 and the budget for those expenditures in 2017 each will be greater than \$100,000 below actual 2014 numbers and that operating revenues will cover operating expenses for each of those years.

Williston Center. The 2017 budget for the city's fitness center reflects continued forecasted strength in the enterprise's financial position. After ending 2015 in a positive position even after accounting for depreciation, the facility continues to cover the costs of all operating costs as well as capital investments, including replacement of the pool deck and fitness equipment in 2016. With a goal of targeted membership numbers around 8,500, staff evaluates 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, currently seven individuals.

At a total purchase price of \$107,000, the community development division will implement a new software called Avolve in 2017 to significantly improve the workflow of the division and customer service to developers. The purchase was originally appropriated as part of the 2017 capital budget with monies from the Technology Fund. *In order to obtain a significant cost discount, staff recommends revising the 2016 budget to authorize a temporary interfund loan using the Development Fund for a portion of the purchase (\$82,000) with the remainder to be financed with the current community development department budget (General Fund).* In 2017 and 2018, associated new equipment costs for the system and payback of the loan will be financed with the adopted Technology Fund capital budget for the system and the current level operating budget of the department (General Fund).

In the 2016 planning division budget (General Fund), there are dollars allocated for the preparation of the comprehensive plan. Since those funds will be expended in 2017, they'll be transferred at year end to the Development Fund. The 2017 planning budget includes additional dollars for the comprehensive plan preparation, and it is anticipated that there would be 2018 expenditures as well.

As the city council is aware, the council acting as the Economic Development Authority preliminarily adopted \$75,000 in the Housing and Redevelopment Authority (HRA) levy in 2017 to continue for a second 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 balances in the HRA fund will serve as continued support for the city's two housing loan programs, marketing, and business outreach.

Finally, under the city's guiding principal that development pay its own way, the city's 2017 levy includes the second year of approximately fifteen years, property taxes to be paid by Ridgedale Mall properties for costs of public improvements associated with their renovations and expansions in 2015 and 2016.

All Other

Human resources. Because the city is primarily a service business, workforce-related legislation has a significant impact on both the city's work and its finances. One new labor agreement is to be negotiated for 2017. Also, 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 2017 budget also includes funding for a six-month transitional position associated with a human resources division retirement. And lastly, the 2017 budget also includes temporary one-time funding to outsource the update of all City of Minnetonka job descriptions to ensure compliance with employment laws enacted or changed over the last ten years.

Communications. Communications expectations have changed dramatically in the last 10 years due to the proliferation of mobile technology and social media. Residents expect accurate and easy-to-understand information in a timely manner, via a number of different mediums. Minnetonka's community continues to rely on traditional print forms of communication, while a growing portion of the population is looking for new and different ways to receive information, especially as it relates to infrastructure improvement projects. To effectively respond to these demands, the 2017 budget includes funding for a new communications specialist position. The additional position will make it possible for communications personnel to better support the work of all departments and allow the division's manager to focus on implementing initiatives outlined in the council's strategic profile work plan.

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 2017 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 2017. Current gross revenue estimates for this year are generally in line with forecasts provided in August. Current expenditures are similar to those experienced in 2016, and as a result final costs will likely be down from those indicated within the budget document. As a result, the city is likely to experience funds remaining on the bottom-line above the approximately \$100,000 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 2016 above that currently indicated will likely first be obligated to ensure that the Budget Stabilization Reserve will

cover rises in annual operating costs. Assignment of any remainder would be discussed at the April 2017 CIP study session.

2017 LEVY

The 2017 proposed operating and adopted capital budgets plus the HRA budget will require an overall increase in the city property tax of 4.5 percent. Of this, one percent is the required increases for the last of the city's voter-approved bond debt issued this year and the self-funded tax abatement for Ridgedale Mall.

Of the residual 3.5 percent increase, 1.6 percent is to maintain current services and one percent is to fund the Capital Improvements Program (CIP) adopted in July. The remainder underwrites operations and staffing to meet strategic objectives in connecting the community through safe trails, adequate roads and effective communication, ensuring ongoing proficient and efficient fire services, and reaping the advantages of technology to improve city services.

Levy (thousands)	2016	2017	Change
City property taxes, current services	\$34,114	\$34,656	1.6%
New initiatives		329	0.9%
Capital program increase		349	1.0%
<i>Subtotal</i>			<u>3.5%</u>
Voter-approved bond debt increase		269	0.8%
Ridgedale tax abatement increase		55	0.2%
<i>Total</i>	<u>\$34,114</u>	<u>\$35,658</u>	<u>4.5%</u>
HRA	\$175	\$175	-

New development and redevelopment in the city 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 3.6 percent, a proportion of which was the result of actual improved real estate as opposed to market forces alone. Although there are some very significant real estate improvements currently in the pipe line, most of those will not impact the property tax base until after payable 2017.

It is critical to be mindful that the city of Minnetonka only accounts 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 (34 percent), and other jurisdictions (6 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.

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 2017 budget are held to an increase of 4.5 percent with no increases for the Housing Redevelopment Authority (HRA) levy. At this rate, the median value home in the city will experience an increase of less than \$46 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 2017 and well into the future.

Originated by:

Geralyn Barone, City Manager
Merrill King, Finance Director