Agenda

City of Minnetonka

Study Session

Monday, August 15, 2016

6:30 p.m.

The Minnehaha Room

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1. 2017 preliminary budget review
2. Adjournment

The purpose of a study session is to allow the city council to discuss matters informally and in greater detail than permitted at formal council meetings. While all meetings of the council are open to the public, study session discussions are generally limited to the council, staff and consultants.

City Council Study Session Item #1
Meeting of August 15, 2016

Brief Description: 2017 preliminary budget review

Recommended Action: Provide direction on key issues and preliminary levy

We are pleased to propose to the city council a 2017 levy and budget consistent with our strategic goals and community values. Within that framework, the budget presented here will enable the city to "Build Paths to Connect the Community," which articulates the council's direction and current high priority objectives relative to the city's more intensive capital road, trail and utility infrastructure improvement plans.

As outlined in this report, staff recommends ***increasing combined levies for 2017 by 3.9 percent***, meaningfully below our initial estimates of five to six percent during the council's deliberations on the capital budget. Of this total, two percent maintains the city's current services, including accommodating all current wage and benefit requirements with some recognized market force salary pressures. Another one percent supports the adopted 2017 capital budget, and the remaining <u>***less than one percent***</u> ***is new funding to appropriately meet new communication, engineering and fire service demands***.

With the additional levies required for the ***voter-approved park referendum*** debt associated with the last open space purchase plus that required for the ***Ridgedale Mall tax abatement***, the ***total levy will increase by 4.9 percent***. It's critical to note that the latter levy is fully sustained by the enhanced property value associated by the improvements and redevelopment at Ridgedale Mall.

The city's proposed levy increase is 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 <u>not</u> receive this state financial support in 2017.

OUR PUBLIC PROCESS

The purpose of this study session is to review only key budget issues and provide direction on the 2017 preliminary tax levy and city budget, which will be set by council and certified to the county by September 30, 2016, as required by state law.[1] This is the maximum amount the city can levy for 2017.

[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 legislation has been introduced to correct this inconsistency during the last two sessions, it has not been enacted. Therefore, both the general levy and the HRA levy for Minnetonka are scheduled for adoption by the council on September 12, 2016.

This initial budget study session focuses on the bigger picture. Guided by these initial discussions, detailed budget requests will be reviewed in November and the final budget adopted in December. At the November 21 study session, staff will have more complete information regarding revenues and expenses for the current year, along with more accurate information for predicting 2017 forecasts. The final 2017 levy may be less than the preliminary amount, but cannot be greater.

Minnetonka always encourages input on its budget from the public. In addition to the public budget hearing in early December, residents and businesses will again have an opportunity to provide feedback via the city's website, an opportunity that is publicized in the *Minnetonka Memo*. Comments will be shared with council as budget options are considered, and updated information will consistently be posted in the *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 Spending & Financial Projections

Revenues. 2016 revenues are currently estimated to exceed the original budget forecast by a very modest 0.7 percent. Continued ***low investment interest along with public safety fine revenue below projections*** this year is anticipated to be offset by proceeds from permits and licenses modestly greater than budgeted. More importantly, revenues are estimated to continue to cover projected obligations from 2017 through 2021. This forecast responsibly assumes that the currently higher proceeds from development will taper off in two years and return to the city's ten-year average.

Spending. ***Operating budgeted costs in 2016 are estimated to be on track with last year***, which likely portends some funds available to be transferred from the General Fund balance for one-time costs within the city's capital program during council deliberation next year. As we approach the council's second detailed budget study session in November, additional information may adjust these current 2016 spending estimates.

Overall inflation continues to be low this year, 1.5 percent for the first six months in the Midwest and 1.4 percent nationally for municipal government costs. The ongoing low price of fuel is forecasted to continue into 2017.

Between now and the second council study session on the 2017 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. For example, staff will have more accurate information and greater confidence in any savings to be garnered as a result of the solar garden energy contracts and can adjust the proposed budget accordingly. Per regular procedures, the CIP budget may also 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.

2017 BUDGET

At a cost of $33.3 million and financed with multiple sources of revenue, the 2017 proposed General Fund operating budget is 4.3 percent greater than the 2016 adopted budget. The majority of these additional funds (3.3 percent) simply maintain current service levels. The remainder of the new funds (one percent) will be strategically used to:

- ensure we continue to be responsive as we improve our transportation corridors, including safe trail systems, perform necessary water and sewer reconstruction projects, and plan for the Southwest Light Rail Transit project;
- further connect the community by utilizing new technology to improve efficiencies and keep customers better informed; and
- maintain our high value and efficient suburban paid-on-call fire force in the changing employment and demographic environment.

BUILDING PATHS TO CONNECT THE COMMUNITY

As the city has embarked upon more intense road, trail and utility infrastructure projects, the community, especially residents and businesses directly impacted by the work, need and deserve more acute professional staff attention and current, often up-to-the-minute, information. The proposed 2017 budget includes additional staffing and technology that will make providing these services possible.

First, the 2017 proposed budget includes new funding for ***one additional project engineer*** and ***increasing our right-of-way technician hours to full-time*** from three-quarters time. Experience with recent road reconstruction projects (e.g., Libb's Lake area, the county projects on CR 101 and Oakland Road) that include various water and sewer infrastructure replacement, storm water system enhancements and curb and gutter improvements has proven such intense work, which is especially impactful to our residents, and thus requires equally intense levels of staffing.

The new professional engineering position and full-time hours for our right-of-way technician will make it possible to maintain our high customer service standards as the city embarks on newly focused fronts, namely to create a complete and safer trail system and city infrastructure improvements brought to bear by the Southwest Light Rail Transit project. This will be ongoing, in addition to the highly impactful water and sewer utility replacement projects and high investments in private development that impact city services such as those provided by our right-of-way technician.

Equally important for advancing connections with our community is improving the quality, frequency and method in which we communicate with residents – which is why the 2017 budget also includes funding for a new ***communications specialist position***. Communications expectations have changed dramatically in the last 10 years. With the proliferation of smart phones, social media and the 24/7 news cycle, residents and staff expect accurate and easy-to-understand information in a timely manner, via a number of different mediums – and these expectations are only increasing as technology and society evolve.

The demographics of Minnetonka also create a unique communications challenge, as a large portion of our population relies on traditional, albeit costly, forms of communication (as evidenced by community survey results consistently showing high marks for the *Minnetonka Memo*), while a growing portion of the population is looking for new and different ways to receive information (as substantiated by a 50 percent growth in digital subscribers in the last two years alone).

We must recognize how these increased pressures affect our ability to meet council and staff goals – and we must adapt to better meet these expectations if we are to continue representing Minnetonka as the premiere, quality place it is. This adjustment in staff will make it possible for communications personnel to better support the work of all departments and allow the communications and marketing manager to focus on implementing initiatives outlined in the council's strategic profile work plan.

Finally, ***technology*** has been an integral method of connecting with our residents. Last year's switch to the new email/text notification platform has connected approximately 6,000 new unique subscribers to city communications (total subscribers now exceed 15,000). Recreation Services switched from its CLASS program to RecTrac, allowing a more streamlined approach to online registration and facility management. For 2017, proposed technology will better connect users of city services by implementing ***e-plan review in the building inspections division*** and an ***online e-learning software in the environmental health division***, both in the community development department.

The e-plan review software is funded in 2016, with implementation and maintenance costs starting in 2017. It will help streamline the permit review process by removing the traditional method of routing a set of paper plans for comment to one individual at a time to an electronic review where multiple staff can review concurrently, individually capturing comments and required plan updates. This collaborative workflow will greatly increase efficiencies and subsequently reduce the staff time required to process this task. The more important aspect of the software is that customers may submit plans digitally through the city's website, which is both convenient and a time saver.

The environmental health division will implement an e-learning tool for restaurant and kitchen establishments. This software will allow for greater compliance and training at the employee level to reduce the risk of violations occurring. The software, with the ability to train in multiple languages, will allow staff to better connect with cooking establishments and focus on nuisance complaints and on further education in food establishments that have chronic violations.

Also, the legal department and police department will be implementing new software for prosecution case management and to better manage electronic forensic analysis.

MINNETONKA'S FIRE SERVICE

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. The plan includes focusing more of the limited hours of POC firefighters upon fighting fires, responding to emergencies, duty crew staffing and all of the many related training requirements. Permanent positions in the fire department would be responsible for all other essential services and work, such as management, planning, inspection, investigations, equipment maintenance. Concentrating the work of POC firefighters on their primary functions will assist greatly with recruitment and retention while ensuring compliance with the ACA.

Under this management plan, the 2017 budget ***includes one additional full-time fire technician position***. The new operations and logistics technician will take on the work that up to now has been carried out by POC firefighters and several other specialized, full-time officers in order to free them to better accomplish their designated high priority assignments. The new operations and logistics technician will also respond to fires and other emergencies as do the fire department's other seven permanent positions, but his/her primary duties will be to cover the other less specialized but mandatory workloads such as equipment and facility maintenance.

The 2017 budget also includes funding ***to restore the current part-time fire inspector position to full-time status***, which had been full-time prior to the downsizing in 2009. The change will enable a regular schedule of inspections to be accomplished and ensure occupancies meet the requirements of the Minnesota State Fire Code and local requirements for fire and life safety. The primary emphasis for the position's workload will be to keep businesses in business, residents in their homes and safeguarding hazards to firefighters.

The secondary responsibility of the inspector will be to gather general and detailed data used by responding personnel to determine the resources and actions necessary to mitigate anticipated emergencies at each specific facility in our community. These "pre-plans" are currently being created, but not yet completed and/or updated for every commercial occupancy. Increasing the position from half-time to full-time will enable the process of keeping the inspections and "pre-plans" updated on an ongoing basis as they should be.

Discussion Question:

- ***Does the council support the proposed strategies for addressing increasing service level demands in engineering, communications and fire services?***

CURRENT LEVEL SERVICES

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. Similarly, most of the increase to maintain current level services for our community is to pay and manage 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.

On top of our ***regular and modest structured and bargained wage increases***, 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 funding to ***raise the hourly wages of these workers***. Management analysis currently shows that the wages of the city's other seasonal workers do not require augmentation at this time.

Similarly, the city has begun to lose candidates who have been offered positions to fill key vacancies because of the structure of our ***health insurance premium costs for employees who require family coverage***. As health care premiums are slated to decrease slightly in 2017 (in only the first year of a multi-year contract option with a new health insurance carrier), next year presents a rare window of opportunity. The budget therefore includes funding to reexamine and restructure the city's contribution to employee health insurance as discussed last November in order to improve and hopefully correct this critical benefit issue***.***

As reported previously, changing demographics, retirements and generational workplace transformations have continued to increase the challenges and demands upon human resource management. The city employs 241 full-time and regular part-time personnel, 80 POC firefighters, and approximately 400 seasonal employees. The current HR function is now supported by only three individuals. As of today, staff projects that nearly 14 percent of the city's workforce is anticipated to turn over before the end of 2017, of which 16 full-time employees are expected to retire.

To ensure complete and continuous coverage during this high turnover period, the 2017 budget includes funding: (1) to pay ***transitional costs for early replacement of a***

retiring human resources staff position, and (2) ***project contract costs*** for the significant task of updating all city job descriptions to ensure compliance with employment laws enacted over the last ten years.

Finally, 2017 requires a second year of staggered three-year funding to finance the city's 30-year Comprehensive Plan. As in 2016, these costs are covered by the General Fund and are temporarily part of the planning division's operating budget. In order to accumulate the total funds necessary over time, the 2016, 2017 and 2018 allotments will be transferred to the Development Fund to be spent as needed throughout the three-year period.

Discussion Question:

- ***Does the council support the proposed costs for recruitment and retention of the city's workforce and for maintaining current level services?***

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.

The Economic Development Advisory Commission (EDAC) reviewed the HRA budget at its July 28 meeting and, on a unanimous vote, recommended adopting ***a preliminary HRA levy of $175,000 (no levy increase)***. The budget would be for housing loans ($100,000) and for the Southwest Light Rail Transit ($75,000). The light rail funds are set aside 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 additional housing loans portion of the levy supports the city's intent to make the program self-sustaining. Approximately ten new loans can be made with the existing balance that was available on June 30, 2016. Based upon an uptick in interest in the two programs, it is anticipated that the funds will be exhausted by this fall. Interest earned (about $10,000 as of May 30) and repayment of loans ($16,000 in 2016) are rolled back into the program.

Annually, loan repayments based upon the current outstanding loans is enough for an additional two to three loans per year. In a self-sustaining analysis, if $100,000 is loaned annually, it will take approximately six more years before programs are self-sustaining. It should be noted that assuming loan paybacks increase each year, fewer levy funds need to be provided for each of those seven years. Staff will conduct this self-sustaining analysis on an annual basis during the budget review.

Staff recommends adopting the EDAC's recommendation.

Discussion Question:

- ***Does the council agree that $175,000 should be certified as the HRA preliminary levy for 2017?***

2017 PRELIMINARY LEVY

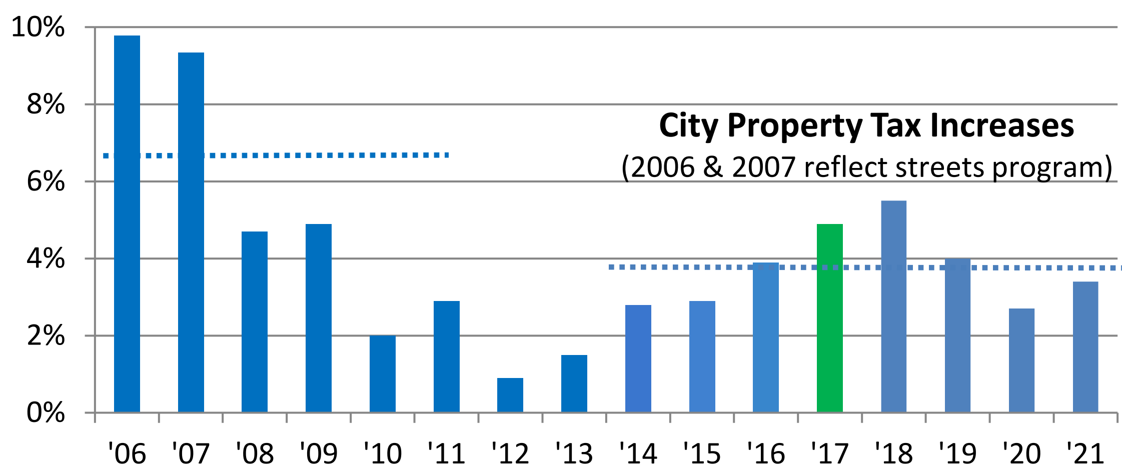
The 2017 proposed operating and adopted capital budgets plus the HRA budget will require an overall increase in the city property tax of 4.9 percent. Of this, one percent is the required increases for the last of the city's voter-approved bond debt issued this year and the self-funded tax abatement for Ridgedale Mall.

Of the residual 3.9 percent increase, two 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.

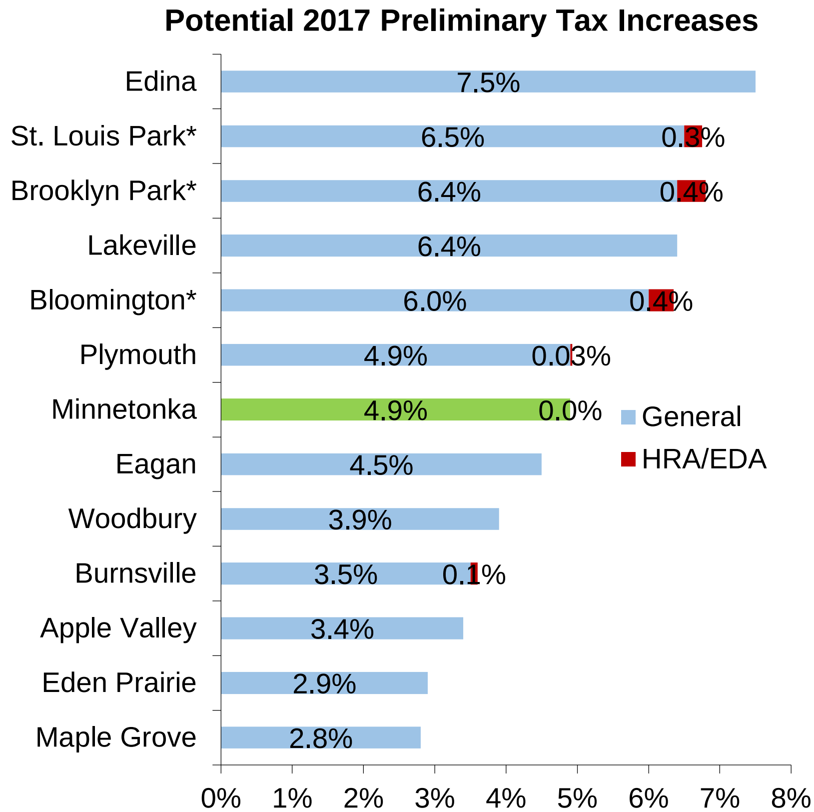
Levy (thousands)	2016	2017	Change
City property taxes, current services	$34,114	$34,789	2.0%
New initiatives		329	0.9%
Capital program increase		349	1.0%
Subtotal			*3.9%*
Voter-approved bond debt increase		269	0.8%
Ridgedale tax abatement increase		55	0.2%
Total	*$34,114*	*$35,791*	*4.9%*
HRA	$175	$175	-

As a result, the city's proposed 2017 tax increase of 4.9 percent is in keeping with our recent history of increases *below historic averages*. Included in these projections are the payoff of all but the last portion of the city's debt service for the open space referendum bonds in 2020 as well as the rising but self-funded tax abatement levy for Ridgedale Mall.

Staff currently anticipates a larger than average levy increase in 2018, and this rise is directly associated with levy requirements of the adopted 2017-2021 CIP. As previously discussed, it currently appears there will be some funds available at the end of 2016 from a positive ending structural balance in the General Fund. Therefore, there will likely be an opportunity to smooth out this aberration with deliberation of the next capital budget this spring.



Comparisons with Other Cities. The proposed 2017 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. Further, three 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 2017. Equally important, unlike many of these other cities, the city does not rely upon special assessments to fund street reconstruction and maintenance.



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

Homeowner Impacts. 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. In addition, residential property values rose at a greater rate than did commercial properties during the period, which causes a slight shift in the property tax burden from commercial to residential. Although there are some very significant real estate improvements currently in the pipe line, many of those will not impact the property tax base until after payable 2017.

Calculating the impact of changes in property taxes to homeowners in Minnesota requires a complicated mix of data and information that changes each year, some of which depends upon legislatively defined formulas, i.e. the state Fiscal Disparities program. Staff is hopeful the final piece of this information to provide projected impacts upon our property owners will be made available from the county by the evening of this first budget study session.

Discussion Question:

- ***Does the council agree that $35,709,602, plus $81,000 for the self-funded Ridgedale Mall tax abatement and $175,000 for the HRA levy (overall 4.9 percent increase) should be certified as the city's preliminary general levy for 2017?***

Summary

Responsible long-term financial planning has continued to position the city of Minnetonka to provide highly rated services to city residents and businesses. The 2017 preliminary city tax levy will be limited to an increase of 3.9 percent for current services, new initiatives and the CIP with another one percent for the voter-approved referendum debt and self-funded tax abatement levy. 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 2017 and well into the future.

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