City Council Study Agenda Item #14B
Meeting of September 12, 2016

Brief Description: Items related to the 2017 preliminary tax levy

1) Resolution setting a preliminary 2016 tax levy, collectible in 2017, and preliminary 2017 budget

2) Resolution setting a preliminary 2016 tax levy, collectible in 2017, for the Bassett Creek Watershed Management Tax District

Recommended Action: Adopt the resolutions

Consistent with the community's strategic goals and values, the proposed 2017 budget 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 discussed at our city council study session on August 15, the 2017 preliminary tax levy proposed herein is limited to an increase of 3.9 percent for current services, new initiatives and the capital program (CIP) budget with another one percent for new voter-approved referendum debt and self-funded tax abatement levy.

Staff currently estimates that the total proposed 4.9 percent levy increase will increase city taxes for a median value residence by less than 4.6 percent, which equates to $4.34 per month. This is slightly lower than initially noted at the time of the council's August study session based on revised information received from Hennepin County subsequent to that meeting.

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 not receive this state financial support in 2017. 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.

OUR PUBLIC PROCESS

State law requires cities to certify preliminary budget and tax levies to the county by September 30, 2016.[1] This is the maximum amount the city can levy for 2017. Counties then report these preliminary levies to all property owners in early November.

[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.

Guided by council's initial discussions in August, detailed budget requests will be developed and then reviewed in November and the final budget adopted in December. At the November 21 public 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 and will hold a public hearing when it adopts the final levy and budget on Monday, December 5, 2016, 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* 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. 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 valuable 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 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. These new pressures on customer services will be ongoing, in addition to those imposed by the high intensity water and sewer replacement projects and increased and higher density private development activity that impact those same staff service areas.

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.

Finally, technology has been an integral method of connecting with our residents and all city customers. 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). Similarly, Recreation Services switched to a new program registration system, allowing a more streamlined approach to online sign-up, payment 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.

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, and 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.

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.

HRA LEVY

Although the city's Housing Redevelopment Authority (HRA) tax levy is not a statutory levy of the city, the city council serves as the Economic Development Authority (EDA) under which those powers reside. As such, the specifics of the recommended HRA levy are provided within a separate agenda item of the EDA that will meet directly following tonight's council meeting.

In brief, staff has recommended adopting recommendations of the Economic Development Advisory Commission (EDAC) and enacting 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.

2017 PRELIMINARY LEVY

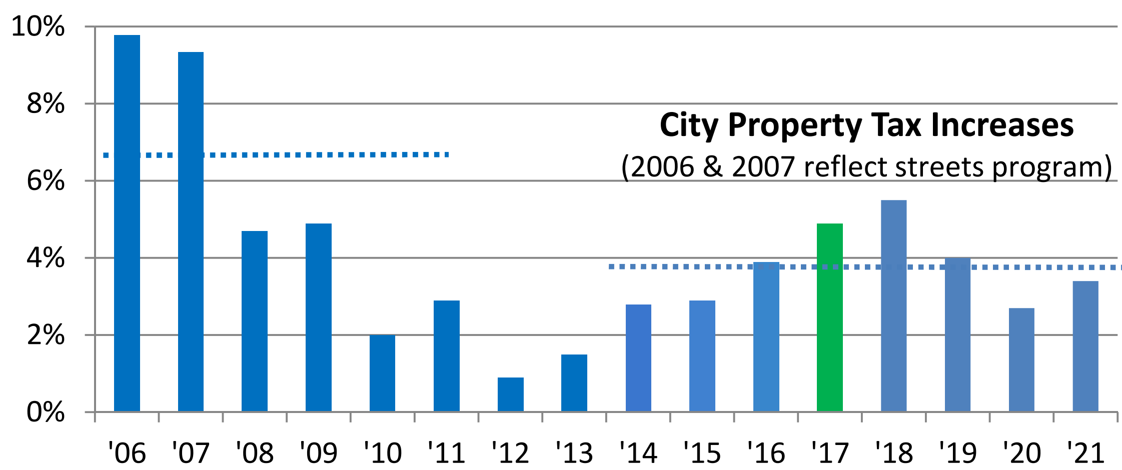
The 2017 proposed operating and adopted capital budgets plus the HRA budget will require an overall increase in the city property tax of 4.9 percent. Of this, one percent is the required increases for the last of the city's voter-approved bond debt issued this year and the self-funded tax abatement for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

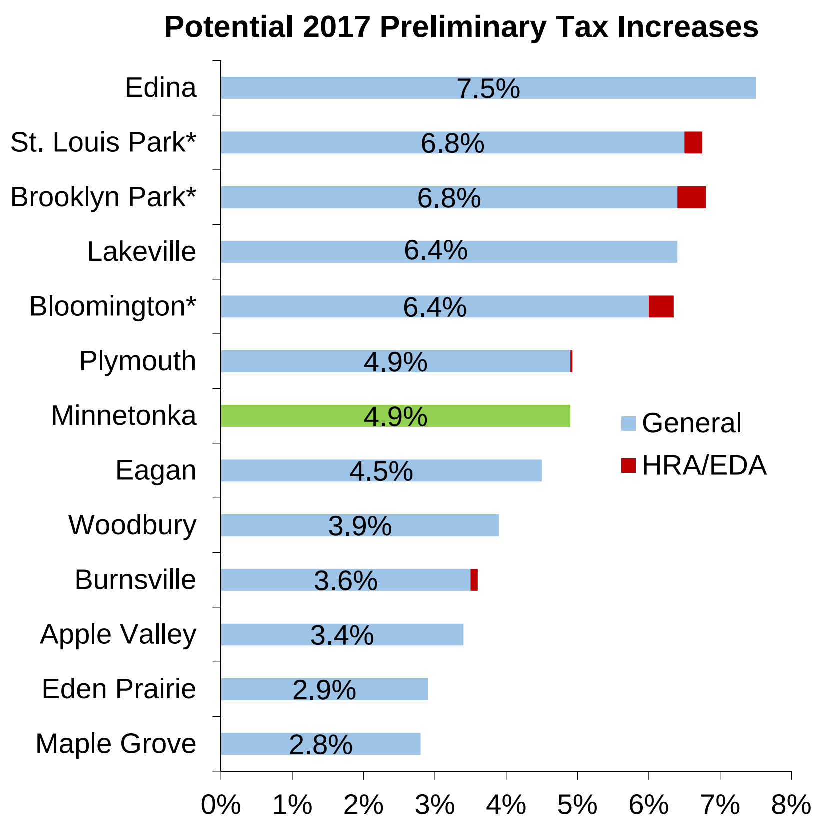
Levy (thousands)	2016	2017	Change
City property taxes, current services	$34,114	$34,789	2.0%
New initiatives		329	0.9%
Capital program increase		349	1.0%
Subtotal			*3.9%*
Voter-approved bond debt increase		269	0.8%
Ridgedale tax abatement increase		55	0.2%
Total	*$34,114*	*$35,791*	*4.9%*
HRA	$175	$175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

As a result, the city's proposed 2017 tax increase 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. Staff currently estimates that the total proposed 4.9 percent levy increase will increase city taxes for a median value residence by less than 4.6 percent, which equates to $4.34 per month. This is slightly lower than initially forecasted at the time of the council's August study session.

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, 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, e.g. the state Fiscal Disparities program. These formulas require variables provided by different jurisdictions, and as such, any forecast is subject to minor changes until the county prepares proposed property tax notices in November. The exact impact on any specific property can vary extensively depending upon property types, markets and improvements, and the impact estimated here is only that of the city's proposed levy, not other taxing jurisdictions. Nonetheless, the November county notice to each property will provide a truer estimate.

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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