Agenda
Minnetonka City Council
Study Session
Monday, August 24, 2020
6:30 p.m.
WebEx

1. Report from City Manager & Council Members

2. 2021 preliminary budget review

3. 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 #2
Meeting of Aug. 24, 2020

Brief Description: 2021 preliminary budget review

Recommended Action: Provide direction on key issues and preliminary levy

We are pleased to propose to the city council a 2021 levy and budget consistent with our strategic goals and community values. Within that framework, the budget recommendations presented are both forward looking and responsive to community and the city council's concerns, specifically to ensure that city services are maintained. The proposal aligns with the reaffirmation by a considerable majority of Minnetonka community survey respondents that they would support an increase in taxes to maintain city services. The recommendations are built using long-term forecasts including a conservative eye to changes in the national economy and technology.

As outlined in this report, staff recommends ***increasing the preliminary city levy for 2021 by 3.5 percent***. Also adopted in July by the council, the Economic Improvement Program (EIP) indicates a ***$75,000 levy increase for HRA (Housing and Redevelopment Authority) supported programs.*** (Note that the city's tax levy is local property tax revenue, which is calculated by subtracting all non-property tax revenue from the total proposed budget.)

The city's proposed levy increase of 3.5 percent is likely to place Minnetonka's levy increase among the lower third of a group of similar metro cities, a number of which are facing similar challenges. While a couple of our comparable cities continue to receive Local Government Aid, Minnetonka will continue to <u>not</u> receive this state financial support in 2021.

OUR PUBLIC PROCESS

The purpose of this study session is to review key budget issues and provide direction on the 2021 preliminary tax levy and city budget, which the city council must set and certify to the county by September 30, 2020 as required by state law. The city calendar currently provides for the council to adopt its preliminary levies on September 21. The preliminary levy establishes the maximum amount the city can levy for 2021.

This initial budget study session focuses on the bigger picture. Guided by these discussions, detailed budget requests will be reviewed in November and the final budget adopted in December. At the November 30 study session, staff will have more complete information regarding revenues and expenses for the current year, along with any additional information available to forecast 2021. The final 2021 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 discussion scheduled and published on proposed tax notices by Hennepin County for December 7, residents and businesses will again have the opportunity to provide feedback via multiple avenues, all of which are publicized on the city's website and 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 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. The recent reaffirmation of the city's Aaa bond rating by Moody's reflects this responsible approach.

Covid-19 pandemic impact. This year's budget process is directly impacted by COVID-19. Typically the Capital Improvements Program (CIP) is approved in June after a detailed study session review in the late spring. This year, the study session still occurred in the spring, but the approval has been delayed until September in order to allow for additional time to determine the impacts of the pandemic and to potentially adjust the CIP funding needs.

General Fund (GF) Financial Projections

As a part of general best practices in budgeting, staff looks closely at both a forecast for the remainder of this year's revenues and expenses, those for 2021, as well as those projected for the future five years through 2025. Staff aligns the General Fund (GF) revenues and cost predictions along the adopted five years of the CIP, which is also heavily dependent upon property tax revenues. This long-range perspective is instrumental in developing recommendations and making decisions for the next year's budget and property tax levy.

The GF is typically a stable fund accounting for general operations from year-to-year without a tremendous amount of variation between the budget and actual activity. This year has been anything but typical; COVID-19 has impacted several city funds, with the biggest impact occurring within the GF.

Current revenues. Absent receiving federal Coronavirus Relief Funds (CRF) this past July, the overall GF revenues would have experienced a significant shortfall compared to the 2020 budget. Categorical revenue including recreation, licenses and permits, and courts fines are sharply below original budget expectations. Recreation revenue is expected to be $920,000 or 68 percent below budget. License and permit revenue is also experiencing deep declines in revenue with an expected shortfall of $710,000 or 16 percent. Lastly, court fine revenue is anticipated to be down about $150,000 or about 45 percent of budget.

An unknown at this point is the rate of second half property tax collections. This year's first half tax collection percentage did mirror prior years, but that may or may not be indicative of this year's second half collections. We have increased the expected delinquency by $290,000 for a total expected delinquency including abatements and cancellations of $615,000, which is about 1.5 percent of the current year's levy.

CRF funds account for an additional $2 million of revenue within the GF. The remaining $2 million of CRF will be recognized within other city funds. The CRF recognized within the GF will cover operating costs incurred as a result of COVID-19, such as personnel costs directly associated with reducing the spread of COVID-19 and personal protective equipment (PPE) such as cleaning supplies and services. A complete overview of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act and subsequent CRF was presented at the July 27, 2020 council meeting (item 14C).

GF total revenues are expected to be approximately $100,000 greater than the original budget at $39,495,000. Again, the shoring up of expected revenue losses is directly related to CRF reimbursing GF operational expenditures.

Current spending. GF operating costs in 2020 are expected to be less than budget, mainly due to the reduction in temporary salaries for recreational programming of approximately $400,000. Again, due to the uniqueness of this year versus other years, projecting year-end variances is unclear. Departments are realizing savings in certain areas such as training and conferences, but certain departments are also seeing increased costs related to COVID-19. If spending continues at the rate experienced up to the end of last month (July), less of the budget will be spent by the end of this year than last year, and departments will have spent 94.5 percent of their budgets, compared to 96.3 percent last year. At the current rate, almost $2.2 million of the GF budget would remain on the bottom-line at the end of 2020, compared to $1.24 million at the end of 2019. Most importantly, some 2020 costs not yet incurred remain unknown at this time, such as the number of snow plow events in early winter along with additional COVID-19 related expenditures.

Fund balance. The City of Minnetonka adopts a balanced GF operating budget each year whereby revenue is equal to expenditures. With adoption of the annual budget, the city council also affirms and/or amends the first year of the adopted CIP, which may include transfers from the GF fund balance to capital funds for planned costs. After revenue and spending balances are known, the net change to the GF fund balance for 2019 compared to 2020 is projected here:

($ thousands)	**2019 Actual**	**2020 Budget**	**2020 Projected**
Excess revenues	$1,445	$0	$101
Remaining expenditure budgets	1,147	0	2,200
Capital transfers (CIP)	(2,750)	(1,600)	(1,600)
Net change GF fund balance	***($158)***	***($1,600)***	***$701***

The city planned on reducing GF fund balance levels in both 2019 and 2020, and the council-adopted 2020-2024 CIP and the draft 2021-2025 CIP anticipated it. In fact, the decrease forecasted above is less than the earlier projection.

Due to many uncertainties, timing of the previously mentioned revenues may portend changes in these projections at the end of 2020. Any potential excess revenues over expenditures may be either transferred from the General Fund balance for one-time costs within the city's 2022-2026 CIP to "smooth out" future needed tax levy increases or to ensure the fund balance can remain at sufficient levels over the next five years to meet council policy. Any potential deficit will be covered utilizing existing fund balance within the GF. Additional information may adjust some of these current forecasts as we approach the council's second detailed budget study session in November.

Revenue projections. Because permit revenue is the city's second greatest source of GF revenue after property taxes, albeit substantially smaller than property taxes, it can significantly impact the city's budget and levy needs. While generally using historical trends to forecast revenue over the next five-year period, staff analyzes current development projects planned and in progress as the basis for next year's revenue forecast of permit revenue. Therefore, after experiencing back-to-back record years in permit revenue in 2018 and 2019, forecasts a year ago indicated that permit levels would begin to fall back to more historical averages after 2020. COVID-19 has scaled back those forecasts even further, reducing the 2021 revenue estimate another $500,000, from $3.5 million to $3.0 million.

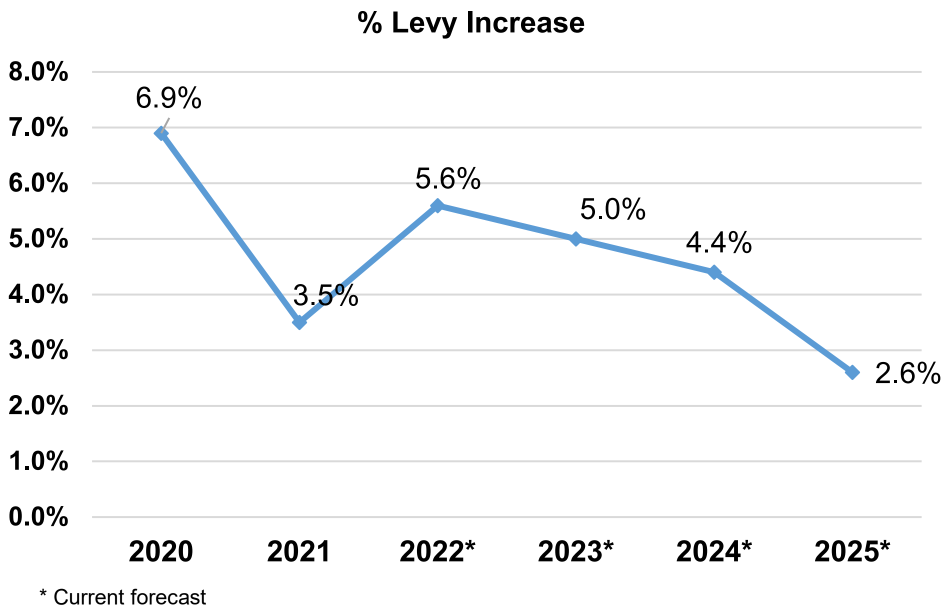
The city is budgeting license permit revenue to drop from an original 2020 budget of $4.3 million to $3.0 million in 2021. As mentioned earlier, 2020 actual license and permit revenue is also dropping significantly with an expected shortfall of $710,000. License and permit revenue is likely to experience a decrease in permit revenues in 2021, and that level is projected to remain relatively flat the following few years. This will add pressure to the property tax levy to financially maintain the city's current level of services, particularly in 2021 and 2022.

Expenditure projections. Staff has anticipated additional ongoing operating costs that will be incurred over the next four years due to projects and programs already approved and in the pipe line, as well as future costs due to known service pressures. Some of these projected increased costs are rolled out over more than one year. The most significant of these estimated costs and their dates of rollout include:

- energy costs and janitorial requirements for the proposed new and expanded public safety facilities (2021, 2022);
- communication staffing (2022 or 2023); and
- public works maintenance of new trails, sidewalks and related landscaping in the adopted CIP (2023).
- General elections (2022, 2024)

Staff assumes current staffing levels and makes very rough estimates on salary and inflationary pressures across the five years using current union contracts and the information known about contracts in other comparable metro cities. And, although it is self-supporting, the city will be required to increase the levy for the Ridgedale tax abatement each year.

As a result of this analysis, staff currently projects that the property tax levy would require the following increases over the next five years, with diminishing pressure on the later years. In addition, it is strategically important to note that in 2023, the currently scheduled decertification of the city's largest Tax Increment Finance (TIF) district in the northeastern part of the city will boost the city's tax base and thereby mitigate property tax payers from bearing the full burden of new levy increases.



These overall projected levy impacts include staff budget recommendations for 2021, as well as changes to the draft 2021-2025 CIP.

Projected levy increases in years 2022 thru 2025 are also heavily based upon the city's adopted CIP, which will be reevaluated and amended with capital budget deliberations next spring. Also, between now and the second council study session on the 2021 budget in November, any new data either unanticipated or not currently available will allow staff to further analyze 2020 and 2021 service cost projections and new or changed revenues. For example, additional grants may become available or, per regular procedures, the CIP budget may be amended with the levy and budget adoption in December to reflect more accurate capital project cost projections and/or altered plans and priorities relative to new information.

2021 BUDGET

During last year's budget process, the five-year levy forecast projected a 2021 levy increase of 5.8 percent. The onset of the global pandemic and the resulting economic downturn weighs heavily in establishing the 2021 levy. Understanding many residents and businesses are experiencing severe financial pressures, it is prudent the city mitigate its levy impact as we begin planning the 2021 budget.

As the budget began to be developed, it is important that we take a responsible, long-term approach to city operations and capital projects. The goal was to reduce the levy impact for 2021 without having a more burdensome financial impact in the years immediately following. The draft 2021-2025 CIP was reviewed in-depth to determine the areas of flexibility. Unfortunately, delaying capital projects, such as street and utility projects tends to typically increase the cost of the projects as conditions continue to worsen and annual costs continue to rise.

That being noted, staff looked more closely at capital equipment to determine if a one-year delay in equipment could be incurred without experiencing a significant amount of additional maintenance. It was determined that a majority of annual fleet purchases scheduled for 2021 within the draft CIP could be delayed one year without a substantial impact to operational budgets. Rather than just delaying the fleet purchases for one year and subsequently requiring two years of purchases in 2022, staff determined that delaying or pushing back the entire fleet replacement schedule for one year was feasible. In essence, fleet vehicles will be delayed one year into the future. It is important to note that the fleet vehicles being delayed do not include patrol or heavy duty vehicles such as plow trucks and fire engines. The savings associated with this delay is approximately $786,900, which reduces the levy impact by 1.8 percent.

In addition to the delay in fleet vehicle purchases, the draft CIP includes the purchase of a replacement Zamboni for the ice arena in the amount of $162,100. In discussions with the recreation director and ice arena manager, this purchase can also be pushed out to 2022 without major financial impact. Since this is just one piece of equipment, delaying the purchase to 2022 does reduce the levy in 2021, but those levy dollars will need to be reinstated for 2022.

New Initiatives

The 2021 draft budget does include funding for new initiatives including: diversity, equity and inclusion, ranked choice voting, and sustainability. These initiatives include funding for both personnel and other services and charges.

Diversity, Equity and Inclusion. The city council has initiated conversations about expanding the city’s role in diversity, equity and inclusion efforts, most recently at a special council meeting on August 17. Further, city staff is increasing its internal initiatives. Examples of potential activities are engaging the community in diversity, equity and inclusion conversations; increasing diversity in city staff hiring and appointments to boards and commissions; applying an equity lens to city policies, practices and systems; and ensuring city facilities, programs and events are inclusive. Although specific details are still under discussion, $100,000 has been included within the budget to provide sufficient capacity to implement programming goals.

Ranked Choice Voting (RCV). This fall, Minnetonka voters will decide whether or not to eliminate the local primary election and replace it with ranked choice voting. If the measure is adopted, it would be implemented with the 2021 local election. Included in the proposed 2021 budget is $102,000 related to the hiring of an additional election specialist to aid in handling increased election responsibilities. An additional $25,000 is also included for voter education related to RCV. 2021 is an off-year election with no state or national elections resulting in a budget reduction of $145,000. The 2021 saved costs will need to be reinstated with the 2022 budget.

Sustainability. In June, the city council reviewed options for expanding the city’s sustainability efforts, including implementation of the Partners in Energy task force recommendations for an Energy Action Plan and creating a sustainability commission. As proposed, the budget includes an additional $50,000 on top of the $100,000 established in 2020. $28,700 of the new dollars are dedicated to hiring an additional part-time communications specialist to aid in the additional need for promoting sustainability efforts. The remaining new dollars would be dedicated within the Cable TV special revenue fund and be utilized in supporting the functions of a new commission.

General Fund Budget Impact

The draft GF 2021 budget is estimated to be $40.6 million, an increase of 3.1 percent or $1.2 million. Three-quarters of the city's General Fund operating expenses is the cost of its greatest assets, its employees. Last year, the council supported and approved a competitive compensation structure for its employees. This compensation structuring had a significant impact on last year's levy. While that compensation restructuring affected a vast majority of employees, it did exclude both the police sergeants and public works union members because each group had a multi-year contract in place through 2020. Although 2021 contract negotiations have not yet begun, it is anticipated that language consistent with the patrol union's contract will be adopted.

Cost of living adjustments (COLA) have been set preliminarily at two percent along with a potential market increase which is dependent upon each position's comparable position in other cities. Preliminary estimates indicate a total compensation increase of approximately 3.17 percent or $816,000. Again, these are preliminary estimates. The council will ultimately determine final COLA adjustments which are either already set by an existing union contract or will be set through upcoming union contract negotiations, and finally by approving all non-union wage adjustments.

Health Insurance

Typically in any given year, health insurance is a driving cost pressure of the budget. This year would have been no different, even with the city's low level of insurance claims. The city has been a member of the LOGIS healthcare consortium for decades. The consortium pools its members in hopes of experiencing less volatility from year-to-year and receiving overall lower rates than if each member was on its own. We were notified in the late spring that our health care premiums were going to increase 9 percent for 2021. Our current premium is $2.9 million which equates to an increase of over $260,000.

As just mentioned, the city's recent claims history is very low so staff thought it was prudent to look outside the consortium and bid for our own health insurance. The bidding environment was very favorable and as a result the city will see a decrease in premiums for 2021 with a cap on rates for 2022 in order to limit our exposure in the second year of the contract. In past years, the city had built in a buffer within the health insurance budget in order to avoid the potential impact of multi-digit increases. Since the city will be insulated against a potential substantial increase in 2022, it provides an opportunity to eliminate that buffer and just budget for our 2021 premium needs. The combination of eliminating the buffer and the reduction in health insurance is expected to provide the GF with $585,000 in savings for 2021.

Police services

A staffing and organizational change is being proposed within the police department. As the police department continues to evolve to meet current and future expectations, it is necessary to reorganize at the sergeant and command level. It has become increasingly apparent that two captains is not enough to maintain and in some areas improve our police services.

The 2021 budget would include an additional captain, which will enhance the level of training, policy development, oversight and compliance within the police department. In addition to these daily responsibilities, this position will manage any police reforms, serve as the police public information officer, and oversee large scale department events and other department or city initiatives. In many comparable departments, this position is titled Professional Standards. Staff is currently working on the full position description.

Pending retirements at the command and supervisory level in the next few years will significantly reduce the level of experience necessary to manage a less experienced police force and this reorganization will provide the support needed to maintain our high quality police services.

In addition, the administrative assistant position is proposed to move from part-time to full-time. Duties currently assigned to a sergeant would be reassigned to the administrative assistant allowing more time for the sergeant to provide direct support to the detective team.

These additional costs would be partially offset by the elimination of two currently vacant positions, a full-time records clerk and a part-time community service officer. The additional captain would be planned for a mid-year start date in 2021. The net impact of this change is $20,500 for 2021 and an additional $82,000 for 2022.

Fire services

The Minnetonka fire department serves our community using a predominately part-time/paid-on-call (POC) staffing structure. Analysis has shown this is a very cost effective method to provide the essential city function while meeting demands for quality services. Unfortunately, due to retirements and general turnover with the POC structure there is a substantial cost to hire, train and outfit new POC firefighters. This cost can be upwards of $10,000 per firefighter depending upon equipment and training needs. The fire department typically hires 10 to 12 new firefighters per year. This cost has never been truly funded within the budget and is ever increasingly difficult to cover with other potential budget savings. The fire department is requesting $75,000 to offset a majority of these costs.

In addition, the fire department is requesting an additional $75,000 for an increase in overtime costs. The overtime request is directly related to covering the costs associated with back-filling full-time battalion chiefs and other full-time hourly employees. Since the hiring of the battalion chiefs, the goal has been to have a supervisor overseeing the duty crews 24/7. The additional overtime would provide the opportunity to continue with this model when a battalion chief is on vacation, sick or at training. The overtime would also provide funds to call back these and other non-exempt employees for fire calls when off duty.

Finally, when the city council discussed and approved an increase in the traditional pension for the Minnetonka Firefighters Relief Association in July 2019, the council signaled support for a staff-recommended increase in the annual budget to a reserve that will help buffer this important benefit during downturns in the economy. The recommended 2021 General Fund budget continues with the additional $50,000 added to the current $25,000 for a total of $75,000 that is set aside annually to accumulate in the special assigned reserve in the General Fund balance for this specific purpose. This balance will continue to be monitored in relation to the pension's required funding ratio.

Legal

Council recently approved an amendment to the 2020-2024 CIP to move up the purchase of body worn cameras (BWC). As a reminder, in addition to the upfront equipment purchase there are also additional operating needs required to appropriately and efficiently administer additional video being captured. The legal department's operational budget includes the addition of a part-time legal support staff member to aid in processing and preparing additional video. This amounts to $43,700 for 2021. The remaining operating costs related to BWC's is related to the maintenance and cloud storage of video data. This cost is estimated to be $60,000 and is included within the police department's budget.

Public Works

The engineering division within the public works department is requesting replacing a currently vacant administrative assistant position with an additional full-time engineer. The change will help with current trends in workload. There is an additional $16,000 cost associated with this reorganization.

As mentioned earlier, the budget also contains new dollars associated with projects or positions approved in the past, but need additional funding in 2021 to fully fund. Two of those items include $45,200 for funding an additional public service worker for parks and trails maintenance approved last year to begin mid-year in 2020. The other budget item is the need for $76,000 to cover the increased utility and cleaning cost of the public safety facility once that project comes online in September 2021.

Community Development

A staffing change is also being requested within the community development department. The environmental health code compliance manager position has been vacant since early this spring. The community development director is proposing to eliminate this position and spread some of that position's duties out to other division managers within the department. With this plan there is still a need to backfill health inspection duties with a part-time inspector or part-time equivalent hours. This restructuring will net a reduction of a 0.5 full-time equivalent (FTE) and an annual savings of $108,800.

Administration

The GF draft budget does propose a net addition of 3.4 full-time equivalents. The city generally operates very lean in regards to maximizing its capacity from all of its staff members and departments. However, the administration department has been experiencing an increased demand on staff and most notably within the human resources division. This division has been under extreme pressure for some time.

New leadership was established within the last year and has since conducted an in-depth analysis of operations. Due to lack of adequate resources, it has been revealed that a number of core functions and compliance matters have either been inadvertently overlooked in years' past or staff simply did not have time due to an inordinate work load.

Current challenges include keeping up with basic daily transactional HR functions and systems, responding to daily inquiries from employees and managers, and maintaining/filing accurate and timely state and federally mandated reports. These positions are needed to provide expertise in the areas of: benefits and leave of absence administration, compensation and classification, employee and labor relations, performance management, policy and procedures, talent acquisition, and safety and wellness.

Presently, the HR function is staffed by a manager, coordinator and specialist. This is an extremely lean staff for an organization with over 250 full-time employees and 650 plus part-time, seasonal, casual and election judge employees. To better support this critical function, administration is requesting the addition of an HR specialist and an HR coordinator. The plan would be to hire an HR specialist on or around Feb. 2021 and an HR coordinator mid-year. The 2021 impact would be approximately $123,500 for 2021 and an additional $41,500 to fully fund the two positions in 2022.

In addition, these two positions will provide efficient and solution-focused services for staff dedicated to attracting, developing, rewarding and retaining a talented and diverse workforce. The future success of the organization, including recalibration of organizational management and development, will require these additional staff requests to tackle a significant list of work plan initiatives.

As already noted, the addition of an elections specialist is proposed related to implementation of ranked choice voting. For the communications division, a half-time communications position is also requested with a mid-year start date at a cost of $28,700 with an additional need of $28,700 in 2022 to fully fund the position. As noted earlier, the communications position will aid in supporting new initiatives such as sustainability, RCV, and diversity, equity and inclusion.

Discussion Question:

- ***Does the city council support the proposed costs related to various personnel and other budget impact requests?***

Cable Television Fund, communication services

In exchange for use of the city's rights-of-way for cable television purposes and as permitted under federal law, the City of Minnetonka first negotiated a franchise agreement in the early 1980s with what is now Comcast (Xfinity). A second franchise agreement was negotiated with CenturyLink in 2016; however, they did not move forward with their Prism product. Fees from the current iteration of the Comcast agreement with the city are established within the latest contract. The fees support the city's Cable Television Fund, which the city relies upon for its communications both with the community and within the city's organization.

The fund finances numerous activities and events to inform and educate the public and city employees as well as to strengthen residents' sense of community. Expenses include broadcast of public meetings and special events; publication of the *Minnetonka Memo*; upkeep of the city's website and intranet; and hosting city events for residents such as Summer Festival, Burwell House Festival, Farmers Market and the City Open House. Fiber for the city's technology infrastructure is also budgeted in this fund.

Over the last decade, staff has kept apprised of federal legislation introduced to restrict or eliminate the city's local control of its rights-of-way, which would likely do away with this franchise fee revenue source. Noteworthy, Federal Communications Commission (FCC) rules adopted last year are expected to reduce the amount of franchise fees collected. Responsibly, the city has budgeted a special reserve in the Cable Television Fund specifically as a safeguard to ensure a smoother transition when fee reductions or elimination come to fruition.

Although the specific legislation has not yet been passed by Congress, regulatory decisions and changes in technology nonetheless appear to be significantly eroding the fee revenue. As more cable customers are moving away from cable to wi-fi streaming services, the franchise fee revenue is dropping, because it is specifically tied to the number of cable customers in Minnetonka.

2018 was the first year in its history that the total annual fee revenue was below the prior year; it fell from nearly $870,000 in 2017 to $814,000 in 2018, a nearly 6.5 percent drop. 2019 fee revenue declined by another $28,800 or 3.1 percent. The first two quarters of 2020 indicate that the precipitous decline is continuing with a 2.6 percent drop in quarterly returns this year compared to this same time last year. The decline in revenues may be slowing, but given the competitive market with wireless service options, we are anticipating a continued erosion of this fee revenue.

Although there continues to exist a current fund balance and a reserve in the Cable Television Fund to withstand a few years of this increasing structural deficit, staff recommends continuing to plan for the long-term by moving the personnel costs presently supported by the fund to instead be supported by the General Fund.

Prior to 2020, the entire costs (wages and benefits) of two communications positions, plus a portion of the costs of an IT and an administrative position, were funded by the Cable Television Fund. The 2020 budget moved half these personnel costs to the Administrative Services Department within the GF. The intention at the time was to move half the cost in 2020 and the other half in 2021. Due to the current economic climate, staff is proposing to delay that transition until 2022 or more likely 2023. The first step of the transition made in 2020 does shore up the fund financially to withstand a couple more years of these operating costs. However, the long-term plan would continue to move the remaining personnel to the GF.

Discussion Question:

- ***Does the city council support the proposed long-term plan of transferring costs for noted communications, IT and administration staff from the Cable Television Fund to the General Fund to manage***

long-term revenue declines and thereby maintain the city's current level services?

Inflationary cost pressures

The July Twin Cities Consumer Price Index (CPI) is down 0.3 percent compared to a year ago. The national Municipal Cost Index (MCI) is just slightly down 0.02 percent at the end of June compared to year ago. The national MCI incorporates a basket of goods consumed by local governments. Based on this information and that received so far from our suppliers, the proposed 2021 budget incorporates a 0.0 percent inflation to supplies and services other than those from our information technology services consortium, LOGIS.

The City of Minnetonka is a member of the LOGIS (Local Government Information Systems) consortium, which has served to significantly reduce the city's technology costs through joint purchasing since the city joined during the 1970s. The LOGIS executive board has approved a 5 percent increase to its members for 2021. This translates into an additional $32,600 or 4.6 percent for LOGIS technology costs in 2021.

2021-2024 CIP amendments

The draft 2021-2024 CIP has undergone a few changes since the study session in May. Below are brief updates to the draft document. These changes will be included in the final document that is planned to be brought to council for consideration in September.

Major Building Components. This project accounts for our HVAC unit replacements. In July, the council amended the previous year's CIP to utilize CARES funding to advance the purchase on planned future years' HVAC unit replacements. Although exact levy reduction estimates are unknown at this point, staff is anticipating bringing a contract forward in late August for the council to consider. It is anticipated that CARES funding will reduce the 2021 city levy by $400,000 with further levy reductions likely for future years.

Body and In-Car Cameras. The council approved moving up the body and in-car camera purchase to 2020, which was originally slated for 2021. The estimated cost of this project is $305,000.

Trail Improvement Plan. Since the council CIP study session in May, the city's park board has taken under consideration and recommended the swapping of trail segments 4 and 10. Trail segment 10 along Minnetonka Blvd. was originally an unfunded project scheduled for some time beyond 2025. This segment is now planned for construction in 2023. In addition, the park board also recommended extending segment 10 to Steele Street. Segment 4, which is also along Minnetonka Blvd., will be pushed back to 2026.

Staff has been working with the project consultant to update the estimate for segment 10 to extend to Steele Street and possibly to Tonkawood Road (which would provide access to a park & ride, Bethlehem Lutheran Church and a daycare). Staff will work through the updated estimates to provide an accurate look at project costs and how the trail segment timing realignment will impact the Trail Expansion Fund and the Capital Improvement Program.

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 $1.9 million in Minnetonka in 2021. Beginning in 2010, the annual levy was $175,000 (0.00212 percent). The levy remained at that dollar level until 2017 to accommodate village center master planning, housing programs, marketing efforts, and more recently light rail. In 2018, the levy was increased to $250,000, and in 2019, it was increased to $300,000 and subsequently reduced in 2020 to $225,000.

On July 27, the city council adopted the 2021–2025 Economic Improvement Program (EIP), which recommends the 2021 HRA levy increase $75,000 for a total levy of $300,000*.* The indicated uses of the funds are: SW Light Rail ($75,000); Housing Programs ($100,000); Business Outreach ($25,000); and one-time contributions for emergency business assistance ($50,000) and emergency rental assistance ($50,000).

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 Economic Development Advisory Commission (EDAC) will review the HRA budget at its September 17 meeting.

Discussion Question:

- ***Does the city council agree an increase of $75,000 for a total of $300,000 should be certified as the HRA preliminary levy for 2021?***

2021 PRELIMINARY LEVY

Since recovering from the recession beginning in 2014, the city's community survey has shown our taxpayers' consistent recognition of the value of city services and remarkable support to increase taxes in order to maintain city services. In the 2020 survey, which was done during the pandemic and within a recessionary period, 75 percent of those who stated an opinion still favored such an increase.

The 2021 proposed operating and capital budgets require an overall net increase in the city property tax levy of 3.5 percent primarily to maintain city services. The largest increase of 6.4 percent is associated with just maintaining our current service levels within the GF. Unfortunately the city's projected 2021 GF non-tax revenue is expected to decline by almost $1.5 million compared to 2020. In order to maintain our current service levels, property taxes need to fill the void. Fortunately, the city is able to realize savings in health insurance resulting in a levy reduction of 1.4 percent along with a modification of the CIP resulting in an additional levy reduction of 2.8 percent. These two actions aid in reducing the overall levy impact to a more reasonable increase.

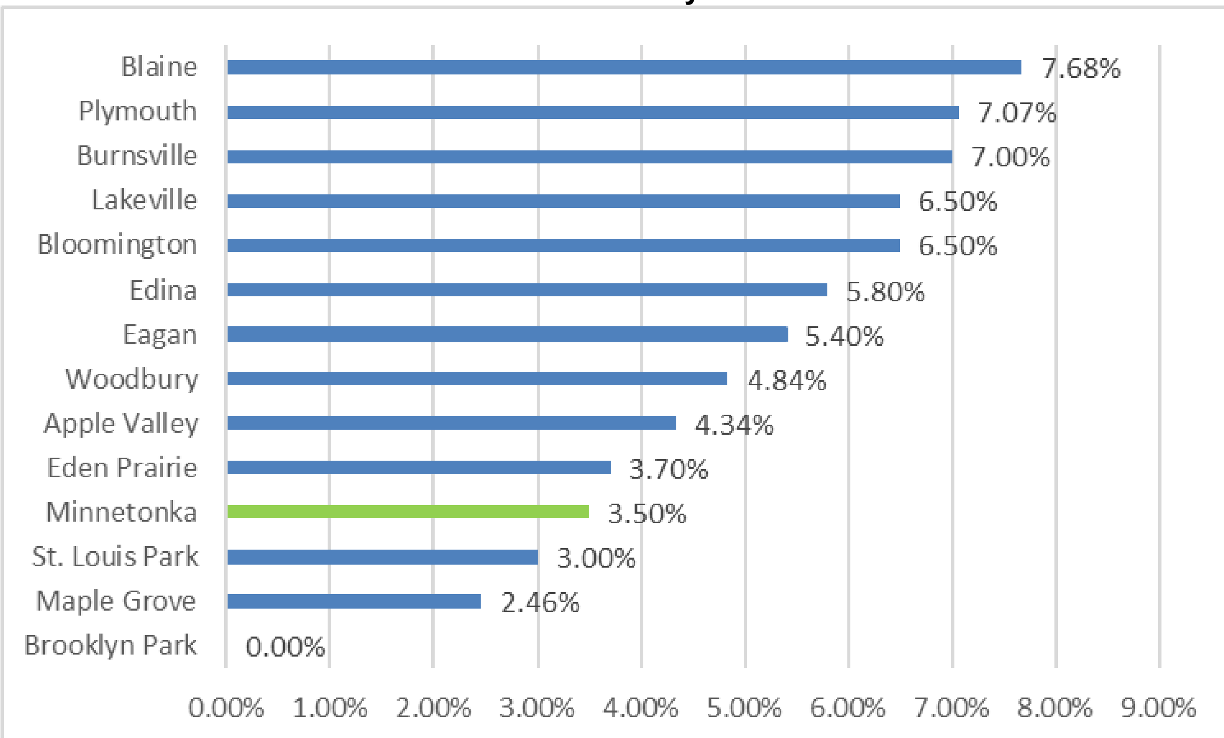
A 0.6 percent levy increase is proposed for new GF operating changes which include: non-personnel operating costs for operating body-worn cameras, funding for the fire department's turnover of POC staff, and funding for public works for costs associated with bringing the new public safety facility on-line in September 2021. A 0.4 percent levy increase is related to the net change in positions across the various GF departments outside of the request for an elections specialist. New initiatives such as RCV, sustainability, and diversity, equity and inclusion account for another 0.6 percent of the levy increase which includes the addition one full-time election specialist. Lastly, due to the favorable public safety bond issuance earlier in the year, the levy can be reduced by 0.3 percent to account for savings from the previously projected levy amount.

Although appearing separately on property tax statements, the HRA levy would increase by $75,000, which equates to a 0.2 percent increase in the city's overall property tax levy impact.

Levy (thousands)	**2019**	**2020**	**Change**
City property taxes, current services	$41,003	$43,607	6.4%
Operating Changes		256	0.6%
Staffing Changes		170	0.4%
Health Insurance Conversion		(585)	(1.4)%
New Initiatives		256	0.6%
Capital program change, adopted		(1,149)	(2.8)%
Subtotal	***41,003***	***42,555***	***3.8%***
Public safety facility		(113)	(0.3)%
Total	***$41,003***	***$42,442***	***3.5%***
HRA	$225	$300	

Comparisons with Other Cities. The proposed 2021 city levy increase is likely to place Minnetonka in the lower third of comparable cities. These percentages are only potential levy increases and may change between now and when preliminary levies are adopted in September. An updated chart will be provided in September with more accurate levy estimates.

Potential 2021 Preliminary Tax Increases



Further, two of the comparable cities shown, St. Louis Park and Brooklyn Park, continue to receive an allocation of state Local Government Aid (LGA), which began in 2014. As has been the case for over a decade, Minnetonka does not and will not receive LGA in 2021. Equally important, unlike many of these other cities, the city does not rely upon special assessments to fund street reconstruction and maintenance.

Homeowner Impacts. New development and redevelopment in the city again increased the city's property tax base last year as reported in March by the city assessor. Over the last seven years, the city's assessed market value has increased by 35 percent. A portion of that increase is the result of actual improved real estate as opposed to market forces alone.

The residential proportion of the city's tax base increased at a pace slightly less than commercial and significantly less than apartment properties. For taxes payable in 2021, the single family home property base experienced a 3.4 percent growth increase compared to commercial properties at 4.8 percent and apartment properties at 17.7 percent. This will cause a shift of 1 percent in the property tax burden away from residential (58 percent of the tax base) to apartments (11 percent of the tax base), while the commercial tax burden will remain the same (31 percent of the tax base).

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, such as the state Fiscal Disparities program. Staff is hopeful the final piece of this information to provide projected impacts upon our property owners will be available from the county by the evening of this first budget study session.

Discussion Question:

- ***Does the council agree that $42,442,399, including $70,000 for the self-funded Ridgedale Mall tax abatement (overall 3.5 percent increase) should be certified as the city's preliminary general levy for 2021?***

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 2021 preliminary city tax levy will be limited to an increase of 3.5 percent to maintain city services as clearly supported by a significant majority of our taxpayers. It ensures our position of fiscal responsibility, preserves our standards of excellence, and encourages innovative and creative thinking. The HRA levy would be increased by $75,000 and thereby increasing the overall taxes under the city's jurisdiction to 3.7 percent compared to 2020.

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 2021 and well into the future.

Originated by:
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