

AGENDA
CITY OF MINNETONKA
STUDY SESSION
MONDAY, AUGUST 28, 2006
6:30 P.M.
BOARDS AND COMMISSIONS ROOM

1. 2007 Preliminary Budget Review
2. Adjournment

Additional Information
Study Session summary June 12, 2006
Special Joint Meeting with Hopkins July 11, 2006
Special Study Session summary July 13, 2006
Study Session summary July 17, 2006

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.

**Minnetonka City Council Study Session Item #1
Meeting of August 28, 2006**

Brief Description: 2007 preliminary budget review

Recommended Action: Provide direction on key budget issues and preliminary property tax levy

The purpose of this study session is to review key budget issues and provide direction on the 2007 preliminary tax levy, which will be certified on September 11, 2006, as required by state law. This is the maximum amount the city can levy for 2007. When the final budget is adopted in December, the final levy may be less than the preliminary amount, but cannot be greater.

Background

The city of Minnetonka takes a responsible long-term perspective with financial planning and management. We make decisions with the future in mind to ensure our ongoing ability to provide residents and businesses with quality services at a reasonable price.

In recent years, basic services were reduced to absorb state revenue cuts, unfunded mandates and restrictions on local revenue options. In response to growing resident concerns, a road revitalization program was begun last year, and additional initiatives are now recommended to address other issues.

This initial study session focuses on the big picture; targets are set for budget growth, service priorities and the preliminary tax levy. Detailed budget requests are then reviewed in November. New opportunities will be available this year for citizens to provide input as the city's 2007 budget is being developed:

- While the city of Minnetonka has always encouraged public input at the state-required Truth-in-Taxation meeting, this public hearing occurs late in the budget process. This year, three sessions will be held in October to provide interested citizens the opportunity to learn more about the city's budget and property tax system, to ask questions and provide input.
- Residents and businesses will also have an opportunity to provide feedback on budget plans via the city's website at www.eminnetonka.com. Preliminary budget information will be made available for comment, and that feedback will be shared with the council as budget options are considered.

Budget Pressures

Personnel costs. As is the case with any service business, salary and benefit costs represent about three-fourths of the city's operating budget:

- **Salaries.** Across-the-board increases have been modest in recent years, and a similar pattern is forecast for 2007. Two of four labor contracts were settled with 3 percent wage adjustment increases for 2007, up from smaller increases in the previous two years. Under the city's unique MERIT system, market adjustments are expected to be made for about one-half of employees in 2007 to ensure that the city of Minnetonka remains competitive.
- **Health insurance** premiums are slated to increase by 16 percent in 2007, following a 12 percent increase in 2006. This is the final year in a three-year contract negotiated through the LOGIS consortium, which plans to review the success of the recently introduced high deductible plan and entertain bids for a new contract in 2008. As part of the current contract, 2006 and 2007 increases were capped; without the cap, 2007 premiums would have increased by 29 percent based on the group's experience.
- **PERA.** The city and its employees have to absorb second year increases in pension contributions related to a five-year statutorily mandated plan to fix Public Employee Retirement Association (PERA) funding liabilities. In 2007, the city will be required to contribute at a rate of 6.25 percent of salary, up from 6.0 percent this year for most employees, and at a rate of 11.7 percent of salary, up from 10.5 percent for police and fire employees. These increases will cost the city an additional \$125,000 in 2007, and more are scheduled in future years.

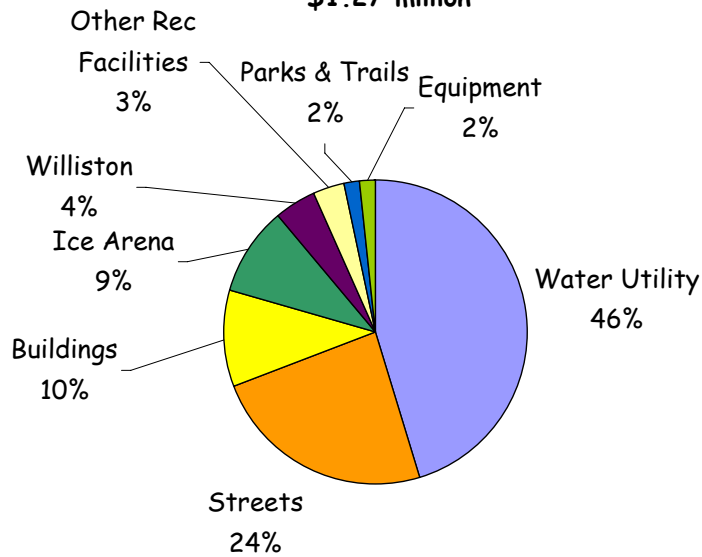
Energy costs are a significant portion of the operating budget, and the city continues to face considerable uncertainty with the cost of utilities (electricity and gas) and fuel. In 2005, \$1.27 million was spent on electricity, another \$315,000 on natural gas and \$304,000 on fuel. Primary users vary by the type of energy:

- **Electricity & gas utilities.** Municipal buildings, the ice arenas and Williston account for nearly 90 percent of all natural gas usage. Close to one-half of total electricity usage is related to water treatment and pumping, with street lighting accounting for another quarter. Recreation facilities use 18 percent, and other municipal buildings another 10 percent. Expenses of the water utilities, ice arenas and Williston are fully supported by user fees.

During the first six months of 2006, electricity costs were significantly greater than the same period last year. While an increase was budgeted, spending is currently 10 percent (\$125,000) over budget for all funds. This increase is directly related to Xcel Energy's 8 percent rate increase that was enacted after the city had established its 2006 budget.

2005 Electricity Expenditures

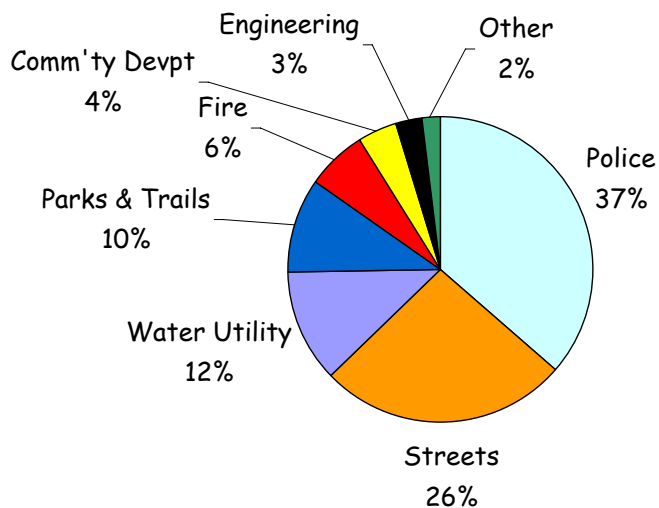
\$1.27 million



- **Fuel.** Police operations account for 37 percent of total fuel usage, with street maintenance another quarter of the total. Water utilities and parks/trails maintenance use 12 and 10 percent, respectively.

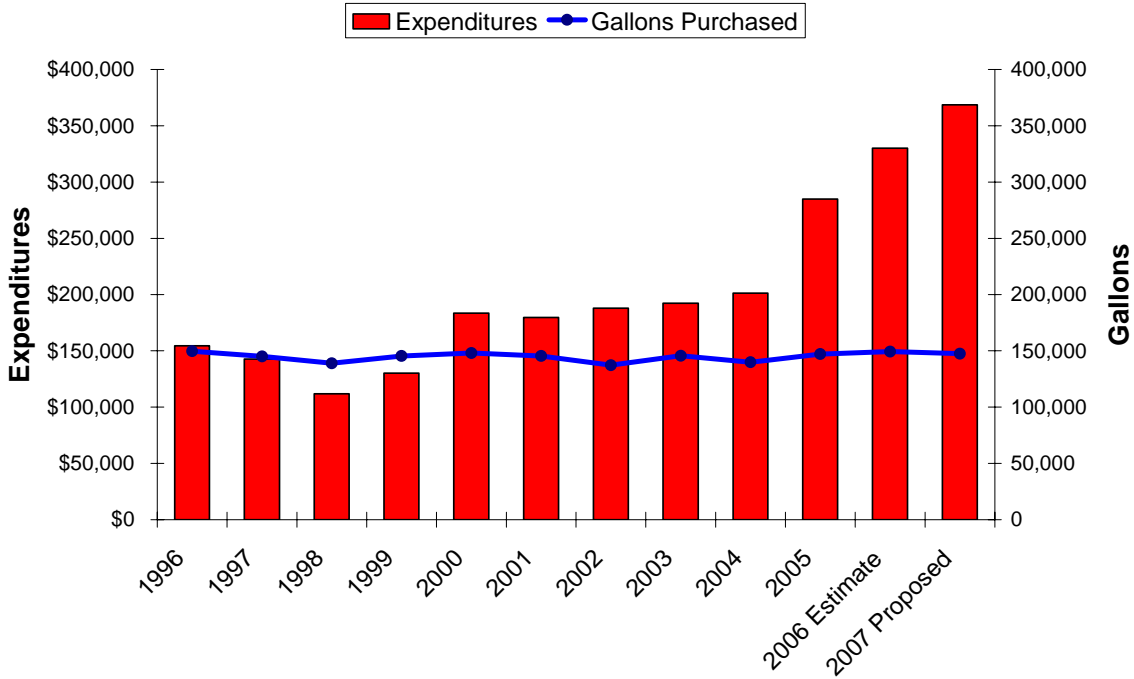
2005 Fuel Expenditures

\$303,500



Fuel costs are projected to nearly double from only three years earlier. While the city has used a consistent amount of fuel for the past 10 years, the price has rapidly escalated beginning in 2005. Even if fuel usage remains constant, the 2007 budget would require another 37 percent budget increase. Unfortunately, options to reduce usage for such services as police patrols, snow plowing and street maintenance are limited due to the nature of the activities.

City of Minnetonka Fuel Costs



2007 Budget Target

The projected cost of continuing city services at current levels is \$1,450,000 higher than in 2006. This is considerably higher than in previous years, and options to reduce the projected budget growth remain limited. Unlike private businesses, the city cannot unilaterally choose our client base, nor the services we wish to sell, nor even the geographic market areas we serve.

To meet citizen expectations for both service quality and taxes, staff proposes that the projected 2007 budget growth be reduced by \$300,000 (20 percent). This reduction target would be accomplished by funding any personnel changes through reallocations of existing resources, setting a goal to reduce energy use by up to ten percent, and limiting the growth of all other expenditures to one-half the rate of inflation. This will be a challenge, since many costs are increasing far faster; for example, LOGIS system expenses will increase by 9 percent.

Budget (000's)	2007 Increase		Comments
	Forecast	Target	
Personnel costs	\$910	\$750	Fund changes with reallocations & limit benefit increases 10% energy reduction goal & limit other increases to 1.5%
Non-personnel	\$540	\$400	
GF increase	\$1,450	\$1,150	\$300,000 reduction target

The recommended operating budget growth target would result in a 2007 general fund budget of about \$24.3 million.

The next several sections outline strategies to achieve this target and address certain other budget issues. All of the recommended budget changes can be accommodated within the recommended targets.

- Energy Conservation Program
- Traffic Management Program
- *ReadyMinnetonka* Program
- Natural Resources Program
- Road Revitalization Program
- Infiltration & Inflow Reduction

Energy Conservation Program

The budget sets a goal of reducing energy use by up to ten percent in 2007; this will be a considerable challenge. Nevertheless, various energy conservation measures have already been implemented to contain costs, and an employee Energy Committee was recently formed to enact additional changes in operating procedures to further reduce the city's energy use:

- Comprehensive energy audits will be conducted at the civic center complex, including city hall, fire station 1, police building and community center. An energy audit of the ice arena was recently completed.
- Software was recently installed to track utility usage by individual facilities to help focus conservation efforts.
- A new employee education program will provide information on energy costs, solicit feedback from employees on potential changes and build support for changes to further reduce energy use.

Lighting. Since electric costs represent about two thirds of the city's energy budget, conservation efforts are largely focused on this utility:

- 90 percent of all light fixtures in the civic center complex and Williston Center have now been retrofitted with energy efficient lighting. The ice arena and public works building will also be retrofitted with energy efficient lighting using Xcel's financing program.
- All traffic lights in the city have now been converted to light emitting diodes (LEDs), which use significantly less electricity than standard bulbs.
- Williston Center and the ice arena now have operating policies regarding turning off lights during periods of non-use. The ice arena has instituted a "half lighting" policy during certain periods of ice use when full lighting is less critical. Similar policies will be put in place regarding down time in city facilities, specific to each category of space.
- City ball fields and the ice arena now participate in Xcel's Peak Controlled Rate program to reduce electricity demand and receive discounts.
- The public works building is fit with motion-detecting lighting in all appropriate spaces. As budgets permit, additional motion detecting sensors will be installed in other city facilities.

Building heating & air conditioning:

- The city hall and community center HVAC system has been fit with energy efficient electric motors. Staff also conducts regular maintenance on all systems to maintain efficiency, and will consider energy efficiency when scheduling replacements.
- New thermostat setting policies will be established for all city facilities, specific to each category of space. Policies will be enforced through the installation of secured and programmable thermostats.
- Operating policies regarding space heaters and fans in office areas will be updated to balance employee needs with energy use and fire safety.
- Temperatures on all water boilers have been unilaterally lowered. Water boiler tune-ups will be scheduled more frequently to ensure efficiency.
- Water boilers in all buildings are now fit with outdoor air resets, which adjust temperatures to accommodate only the energy needed to heat water given the current seasonal temperatures. City hall and fire station 1 use staged water boilers, which only turn on the number of boilers actually required given current building water use.
- Installation of a heat reclamation system on the water boilers in the ice arena will be evaluated for the possible recycling of warm water from the ice system.
- First season costs and operations of the city hall sidewalk heating system will be carefully monitored, and operating adjustments made accordingly.

Other energy uses:

- The new water treatment plant and public works building will be put on peak-controlled rates to reduce costs. This is possible because generators can supply the necessary power these buildings need.
- The ice arena has instituted a policy to maintain “softer ice” during certain periods of ice use when hard ice is less critical. The number of times that ice is made each day at the ice arena will also be reduced.
- All water utility plants and facilities are now fit with converted variable frequency pump drives, which operate more efficiently.
- Employees are now required to turn off computers at the end of the day.
- The cost effectiveness of replacing roofing insulation will be evaluated for all city facilities, especially city hall.
- Energy efficiency will be included as a key specification in bids for a new ice arena cooling tower, scheduled in 2008.
- Strategies to reduce fuel use will be developed, including policies for idling vehicles and more cost-effective scheduling of trips.
- New policies for vehicle replacement will consider alternative fuels.

In addition to the ten percent energy use reduction goal, the standard \$25,000 budget contingency will be increased to \$75,000 for 2007 to recognize continuing energy price uncertainties.

Discussion question: Does council wish to offer any additional direction for the energy conservation program now underway?

Traffic Management Program

As council knows, traffic management is a continuing challenge. In the 2006 community survey, 58 percent of residents were concerned about speeding – two-thirds of these thought it a serious concern, and more than one-fourth listed speeding as very serious.

City streets are experiencing higher traffic volumes and increased speed. Additionally, driver behavior has become more aggressive, and an increasing number of drivers are ignoring stop signs, traffic lights and speed limit signs.

In response to these growing concerns, an interdepartmental Traffic Safety Committee composed of police, engineering and public works staff developed a comprehensive program designed to modify driver behavior:

City-wide strategies

Neighborhood strategies

Education

- Campaign to raise speeding awareness (*Memo*, web, papers)
- Publish traffic citations on website
- Neighborhood watch association tool kit (flyers, pledges, etc.)

Enforcement

- Visible & consistent enforcement
- Speed display boards
- Reserve officer monitoring
- Extra overtime enforcement
- Fixed speed monitor signs funded by neighborhoods
- Extra traffic enforcement funded by neighborhoods

Engineering

- Pedestrian signs at key crossings (schools & major trails)
 - Assess neighborhood compliance
 - Evaluate traffic calming techniques
-

City-wide strategies. The traffic management program is intended to reinforce a culture in which speeding is not acceptable in the community of Minnetonka.

- **Education.** A comprehensive campaign is planned to create community awareness and encourage personal responsibility to make behavioral changes in driving habits. The campaign will use various media (*Mtka Memo*, www.eminntonka.com, local newspapers), and could involve partnerships with other groups, such as schools, civic and business organizations.

In addition to positive image strategies, the city council might also consider the use of deterrents, such as listing the names of those individuals cited for speeding in the city of Minnetonka on the city's website. Such a program would need to be structured to address legal considerations

- **Enforcement.** Minnetonka police officers consistently educate drivers and enforce traffic laws in the city. In addition to two dedicated traffic officer positions that were added in 2000, all patrol members are expected to spend their discretionary time working traffic. Although such efforts are necessarily limited by higher priority calls, about one-fifth of each shift is devoted to traffic enforcement. This increased visibility adds to the public perception that speeding is being continually monitored.

A second speed trailer was recently purchased as another tool to educate drivers about their speed. In addition, reserve officers will be trained to use radar and laser equipment to provide additional personnel monitoring speed levels. Although reserve officers can not issue citations, letters will be sent to violators with reminders of their personal responsibility to obey traffic laws.

In addition, the 2007 budget will fund additional dedicated speed enforcement using overtime shifts. Two officers will work an additional four hour shift each week of the year, with deployment targeted to maximize visibility during peak traffic hours.

- **Engineering.** Staff is developing a plan to provide more signage at school and trail/pedestrian crossings to increase visibility and enhance safety. Signage and striping costs will be minimal through the use of ICWC crews. In-street signs and striping will be installed at about one dozen key school crossings (identified in cooperation with the districts), and striping and boulevard signage will be provided at higher volume trail crossings.

Neighborhood strategies. Contrary to popular belief, speed and traffic count analyses consistently confirm that the majority of speeding violators typically reside within the neighborhood. Accordingly, residents need to be educated and enlisted to help solve the problems in their own neighborhoods. Staff has developed a two-step process with which neighborhood groups can request assistance in dealing with traffic/speeding concerns:

1. **Education.** When a request is received, the problem would first be assessed by the police department to determine which education and enforcement activities should be employed. Staff might initially work with neighborhood associations and watch groups, providing them with the tools they need to help raise awareness.

In addition to packets of educational materials and flyers, other approaches might be used to reinforce positive behavior, such as non-speeding pledges from neighbors. As appropriate, neighborhood speed watch groups might be formed, and speed trailers could be used to raise public awareness.

2. **Enforcement and engineering.** In more serious cases, the Traffic Safety Committee would review whether additional enforcement or engineering techniques are warranted. Traffic counts and speed data would first be collected to evaluate compliance. Similar to the industry standard for setting speed limits, a traffic compliance level of 85 percent would be the standard to determine whether additional city resources should be expended.

In those cases where compliance is less than 85 percent, the Traffic Safety Committee would next evaluate the possible use of additional enforcement and engineering strategies. For example, selective traffic enforcement saturations might be employed. Appropriate traffic calming options might also be considered, including narrowing intersections, striping or other traditional design techniques. Consistent with past city policy, speed humps would not be considered.

When compliance is greater than the 85 percent standard, no additional city resources would be expended beyond the support of neighborhood groups. However, the city council might also consider making available speed signs and overtime shifts for neighborhoods interested in supporting a higher level of education and enforcement. Fixed speed monitor signs would cost about \$4,500 each, and additional patrols would be billed at \$65 per hour with a two officer, four hour minimum (\$520).

Discussion Questions: Does council support the recommended traffic management strategies? Specifically:

- ***Two step process intended to actively engage neighborhood residents and cost effectively employ limited city resources.***
- ***Neighborhood options to pay for enhanced education and enforcement activities.***
- ***Publishing the names of individuals who receive traffic citations on the city's website.***

ReadyMinnetonka Program

The fire department is developing a *ReadyMinnetonka* program to enhance community involvement in, and understanding of, emergency preparedness. The successful fire education program is being adapted to better prepare the city, its residents and business community for unusual events that have significant community-wide impact. Five components are included in the program:

- **Education.** Using available federal materials, the education program will better prepare businesses and residents to deal with emergencies. *ReadyMinnetonka* will educate the community through existing school and senior programs, and staff will also develop a program at the neighborhood level. Paid-on-call firefighters will work in small teams on-site, directly in the neighborhoods, at the fire stations and at other community events and association meetings.
- **Community involvement.** *ReadyMinnetonka* will also work with community groups and businesses to help local establishments promote self emergency readiness. For example, product lists will be developed for a preparedness kit so that local vendors might market the items in their stores. Such goods might include bottled water, batteries and portable radios, which could be shelved together as *ReadyMinnetonka* items. As other examples, civic clubs might be enlisted to distribute flyers, promote the *ReadyMinnetonka* program, and where appropriate, become active participants in recovery planning with the fire department.

- **Preparation.** *ReadyMinnetonka* will help ready those who choose to act. A good-better-best list has been developed to assist residents and businesses in deciding appropriate levels of preparedness. One size does not fit all, so this approach promotes everyone taking the appropriate level of action. A guide will help individuals and businesses determine their risks, show how to develop a plan that fits their risk level, and determine what should be in each level of *ReadyMinnetonka* emergency kit.
- **Certification.** Businesses, residents and homeowners will have an opportunity to become *Certified ReadyMinnetonka* at the level they feel most appropriate. Those who choose to participate may have their activities, plans and resources reviewed, and if they meet minimum requirements, will be certified as *ReadyMinnetonka*. This will also allow the fire department to develop a data base with contact numbers and other information to aid in the event of an emergency. Certifications will be updated every other year.
- **Maintenance.** The fire department has developed a checklist to ensure that plans, kits and information are updated at least annually. Replacing/rotating stock in the kits, checking contact names and numbers, holding a home/business fire drill are examples of renewal activities.

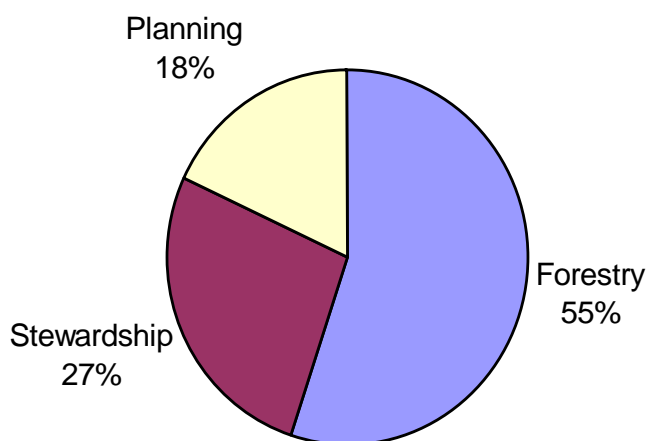
The *ReadyMinnetonka* program has been initiated with current staff, with the fire marshal taking the lead. To continue the program, a minor staffing adjustment is recommended at a cost of \$7,000 annually. Overall staffing levels would not change, but the city would have two fire marshals to ensure that *ReadyMinnetonka* is adequately supported, and that code enforcement/inspection responsibilities are also accomplished.

Discussion question: Does council wish to offer any direction for the ReadyMinnetonka program now being developed?

Natural Resources Program

In 2005, all natural resource functions were consolidated into a new public works division. Responsibilities of include: (1) planning functions, which include review and compliance of natural resource regulation for subdivisions and building permits, and water resource regulation; (2) a stewardship program, which includes restoration of the natural areas in city parks; and (3) forestry activities, including the shade tree disease control program:

Natural Resources Budget



- **Planning** accounts for the smallest share of the natural resources budget; about \$150,000 in 2006. These dollars fund 1.5 full-time staff that review and inspect all subdivisions, grading and building permit sites for compliance with natural resource regulation. Staff works closely with the community development department to ensure that building permits are issued in accordance with city code and council policy as they relate to natural resource conservation.

Planning also includes public education on the value of wetlands and shorelands; implementation of programs so the city complies with its state required NPDES (National Pollutant Discharge Elimination System) storm water drainage permit; as well as special programs like the Wetland Health Evaluation Program, the Citizen Assisted Lake Monitoring Program and the Loosestrife Control Program.

- **Stewardship** primarily funds the restoration of natural areas in city parks, and also volunteer activities and educational efforts. These activities account for about \$250,000 of the natural resource budget, and are partially funded through the CIP. This program was initiated by the council in the late 1990's to improve the quality of the city's natural environment. It requires 1.25 full time staff and the use of consultants to implement the restoration plans.
- **Forestry** accounts for the largest share of the natural resources budget – nearly one-half million dollars in 2006. Efforts are primarily dedicated to the Shade Tree Disease Control program, which primarily deals with Dutch elm disease, and to a lesser extent, with oak wilt. The city forester is responsible for this program, and also for planning Arbor Day events, overseeing tree planting, coordinating the city's Tree City USA application and providing tree care education to residents.

The Shade Tree Disease Control program consumes 90% of the forester's time from mid-May through October. Four seasonal tree inspectors are employed from June through August, and a part-time clerical person handles written correspondence with approximately 1,300 residents who are required to remove diseased elm and oak trees.

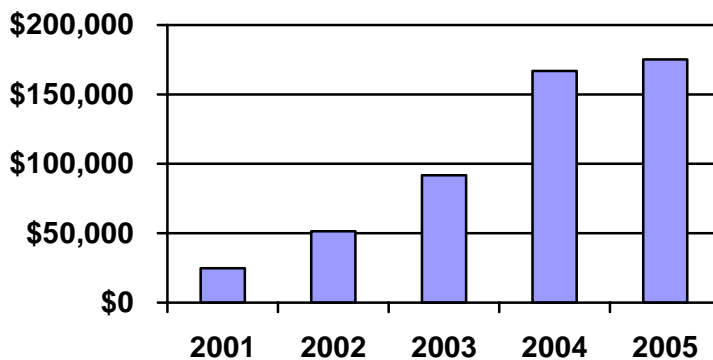
Shade tree disease control began in the mid 1970's with the intent of slowing the progress of Dutch elm disease, thereby allowing time to begin reforestation with a variety of tree species to promote the diversity of the urban forest. The goal of the program was never to fully eradicate the disease, only to buy time.

Activity peaked in 1978 with the identification of about 8,500 diseased trees. This number is a bit misleading, because it accounts for every small elm that was marked for removal. Over time, the number of diseased elms gradually declined and reached a low point during the 1990's with an average of 1,380 diseased trees removed each year. More recently, mild winters and drought-like conditions are causing an increase in the number of bark beetles, which increases the number of diseased elms.

From the mid 1970's until 1992, the city paid for the removal of diseased elms on private property, then transitioned to a cost sharing program, which was ended in 2001. Since then, the city has marked and ordered the removal of diseased trees, but has only paid for the cost of removing trees on public land and boulevard easements.

The amount spent on the removal of public trees nearly doubled from \$91,900 in 2003 to \$175,100 in 2005. This was due to an increase in the number of diseased trees, as well as higher contractor removal costs attributable to labor, fuel prices and insurance. Unit costs have increased an average of five percent a year over the last five years - a trend common throughout the metro area.

Diseased Tree Removal Costs



Program goals. Staff believes that the city should continue a comprehensive Shade Tree Disease Control program, but that forestry activities should change to better meet community needs. The forestry program should be more than simply disease control - it should proactively promote the health of the entire urban forest, with new programs designed to save the larger, more valuable trees in the community.

This goal can be accomplished by assisting residents in maintaining the health and vigor of their shade trees through consultations on tree care and insect diagnosis. This is a far more effective way to catch new invasive insect pests that may be entering the city, such as emerald ash borer.

Staff also believes that a stronger emphasis needs to be placed on stewardship, with increasing efforts over the next several years to educate and benefit the public on natural resource issues. For example:

- buckthorn assistance, in which the city performs neighborhood site visits and assists with hauling of cut buckthorn;
- expansion of the loosestrife program to include neighborhood groups concerned about their wetlands;
- citizen conservation easement monitoring and education;
- a citizen forester program;
- neighborhood planting projects; and
- a Minnetonka memorial tree grove.

Budget recommendations. Rather than simply add to the current budget, staff instead considered a variety of ways to reallocate existing resources to meet more important forestry priorities – primarily by more effectively managing the escalating cost of the current Shade Tree Disease Control program:

- Staff recommends establishing a cap on the amount that will be spent on the removal of diseased trees on public property. By managing within the available resources, necessary discipline is introduced to what has been an open-ended program. Based on expected demands, a budget of \$175,000 is recommended for 2007. Should demands approach this amount, cost-effective priorities would be established for removals.
- Staff also considered requiring residents to remove diseased trees in the boulevard easements, since these areas are legally the responsibility of the property owners. However, since such areas are commonly visible and public safety considerations might exist, staff recommends continuing the removal of such trees at public expense, but that the city should no longer grind stumps in boulevard easements.

Staff recommends the following resource reallocations:

- Valuable oaks in the community can be saved from the threat of oak wilt by offering residents a cost share program for oak injections. This is a proven method that doesn't just buy time like elm injections, but rather, can actually stop the disease from spreading. \$10,000 of the savings from diseased tree management is recommended for this program.
- Staff also recommends that the city encourage the reforestation of private property by offering a discounted tree sale to its residents. \$15,000 from the diseased tree savings would supplement the current reforestation fund to implement an expanded reforestation effort for private property.
- A greater portion of the city forester's time and additional program resources would be refocused on reforestation, citizen consultation and education. This would be accomplished by reallocating a share of the resources that go to seasonal tree inspectors. Although it would take staff longer to respond to Dutch elm disease inspection requests, higher priority forestry services would be expanded at no additional cost.
- Staff also recommends that the expertise of a native plant gardener be obtained in 2007. This person would help maintain the native plant areas being established in the city, including Gray's Bay Marina, Headwaters Park, civic center campus, Libb's Lake Beach and Kinsel Park. The part-time or contract gardener would assist parks maintenance staff in these areas, with the additional \$15,000 cost financed within the current budget.
- The city's natural resources education program would be expanded by increasing the efficiency of permit compliance through cooperative inspections with the community development department. A new code enforcement position in community development would be specifically assigned to coordinate permit inspections; this would free up time in the forestry division for the needed new programs. About half the cost of the new position would be funded by reallocating overtime and temporary salaries in community development.
- Finally, staff recommends the addition of a second ICWC crew to supplement park maintenance efforts. As the parks renewal program nears completion, greater maintenance will be required to meet resident expectations. The existing crew has proven to be extremely cost effective, and the new crew would be largely funded by reallocating seasonal worker resources.

Discussion question: Does council support the recommended changes in the natural resources program?

Road Revitalization Program

As council knows, resident dissatisfaction with road repair has been increasing. In this year's community survey, satisfaction with pavement repair and street patching slipped even further from a previous 63 percent approval rating last year to 49 percent, the lowest rating of the last six years.

In response to these concerns, council approved a new road revitalization program last year for Minnetonka's 250 miles of local streets. The program uses a two-pronged approach for stabilizing, repairing and maintaining city roads:

- **Thin overlay.** Begun as a pilot program in 2004, last year's CIP increased funding by \$600,000 annually to stabilize deteriorating pavement and prolong the life of city streets by five to eight years. This nearly tripled the previous budget for asphalt, and the cost-effective work is being done by existing city crews. The process places a 1.5 inch layer of fresh asphalt over an entire road, at a fraction of the cost of traditional mill and overlay.
- **Road reconstruction.** Complete road reconstruction is very expensive, so only a limited numbers of streets can be done each year – typically only one or two neighborhoods. The worst areas are scheduled within the next ten years, with thin overlay used to buy time until reconstruction of the remaining streets can take place. With complete reconstruction, the road surface is removed down to the underlying soil, then a new road surface is constructed, along with new curb and gutter.

When council authorized the road revitalization program in July 2005, an initial \$1.2 million annually was approved for both thin overlay and road reconstruction. The 2007-11 CIP, adopted August 7, 2006, included an additional \$1.5 million annually to ensure that Minnetonka's average pavement rating remains above 70. The program focuses available funding on the worst roads, balanced against such other factors as neighborhood disruption, mobilization costs and coordination with planned drainage improvements.

Infiltration & Inflow Reduction

A new program is being planned to reduce infiltration and inflow (I&I) into the city's sanitary sewer system, which discharges to interceptors owned by the Metropolitan Council. Excess rain water flows into the regional system are overloading treatment capacity, so the Met Council plans to impose surcharges beginning in 2007. Minnetonka's initial annual charge is now estimated at \$377,000, and could continue to increase depending on annual precipitation.

Accordingly, the city plans to implement a comprehensive four part I&I reduction program consisting of:

- **Education** campaign for the public, emphasizing the environmental and financial need to address I&I.
- **Public improvements** to address I&I issues on public property, including a manhole inspection program to seal covers and leaking barrels, and the installation of drain tiles behind curbs in those areas with wet basements.
- **Inspection program** to identify problem private properties, including closed circuit televising (CCTV) of sewers to determine sources of clear water inflow, and a property inspection program coordinated with the planned replacement of residential water meters.
- **Incentives** to encourage corrections, including a certification program for compliant properties, surcharges for the failure to fix known deficiencies, and a financial incentive program to assist private property owners in making repairs.

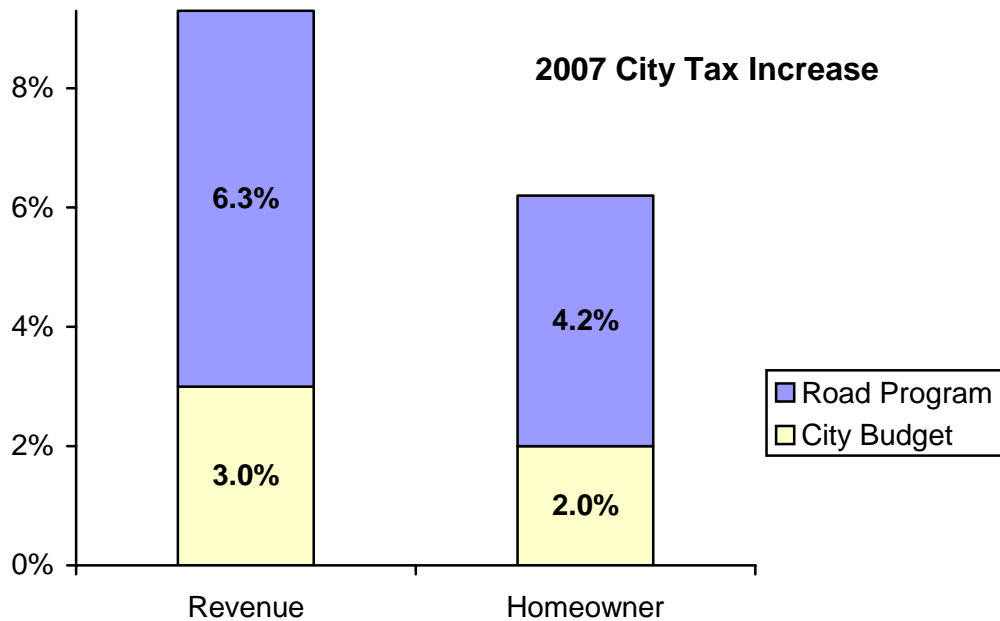
The adopted 2007-11 CIP budgeted \$1.35 million annually for the new I&I program, with \$1 million of that amount earmarked for an incentive program. It is expected that the new I&I program will be fully funded within the normal water and sewer rate increases programmed in the spring of each year.

Property Taxes

Staff recommends that a preliminary levy of \$26,043,606 be certified. This levy reflects the operating budget targets and adopted CIP, including an additional \$1.5 million for the road revitalization program:

Property Taxes (thousands)	2006 Levy	2007 Levy
General Fund	\$17,252	\$18,053
Capital Funds	3,267	3,191
Road Program	3,300	4,800
Total Taxes	\$23,819	\$26,044

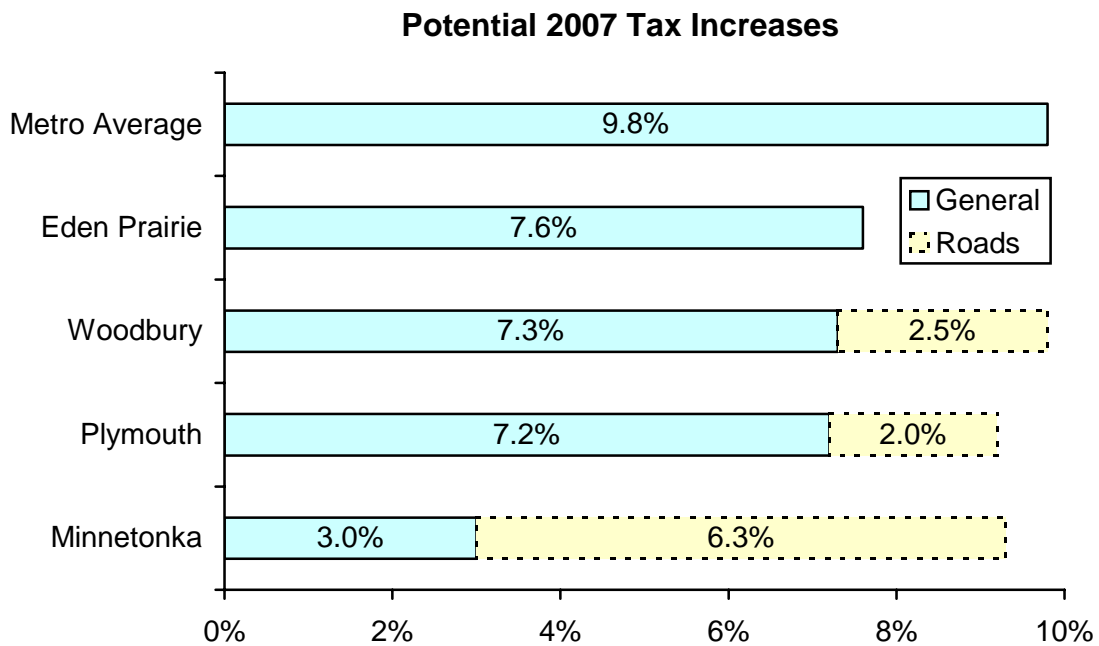
The recommended levy generates 9.3 percent more revenue than in 2006, with a 6.3 percent increase associated with the road program. The revenue increase for operating and other capital needs would be limited to 3.0 percent. However, decertification of a TIF district means that the 2007 property tax increase for an average homeowner would be 6.2 percent:



Staff recommends that a preliminary levy of \$26,043,606 be certified on September 11 for various reasons:

- **Preservation of future options.** The recommended levy fully funds all operating and capital needs for 2007, including another \$1.5 million for the road program. As council knows, the final levy adopted on December 18 can be less than this amount, but not greater.
- **Road program.** The property tax increase to fund the road program is necessarily higher than in those cities which special assess individual property owners. However, the net impact on Minnetonka taxpayers is less, since property taxes are deductible against income taxes. In addition, our pay-as-you-go program avoids the borrowing costs incurred by cities with road bonding programs.
- **MVHC uncertainty.** Although scheduled in law for 2007, restoration of state MVHC funding is uncertain until the legislature adjourns next year. Consistent with the approach being taken by other MLC cities, staff recommends not counting on these funds until they are actually received. Appropriate adjustments can then be made with the 2008 tax levy.

- **Levy limit uncertainly** is a major concern. Limits are not in effect for 2007, but could likely be reimposed for 2008. The recommended approach would help avoid the need for major adjustments in the city's 2008 budget if levy limits are subsequently imposed.
- **TIF decertification.** Beginning in 2007, city of Minnetonka tax capacity will be increased with decertification of the Hedberg soils TIF district. As a result, the *impact on the average homeowner of the recommended 9.3 percent revenue increase would be 6.2 percent.*
- **Comparison with other communities.** The recommended tax increase is below the 2007 increase projected by House Research for the Metro area, and is comparable with other MLC cities, despite the fact that Minnetonka does not special assess for roads. The general tax increase (without roads) is considerably less than planned in other cities:



- **Park referendum.** Property taxes would be affected by sale of the remaining \$5 million park referendum bonds, but no bonds are expected to be issued in 2006, so there would be no impact on the 2007 levy. If issued in 2007, debt service payments beginning in 2008 would require an additional tax increase of about two percent over and above the projected 3 to 4 percent increase in 2008. Of course, this increase was voter-approved.

Discussion question: Does council concur that the recommended \$26,043,606 should be certified as the preliminary levy for 2007?

Summary

As a result of responsible financial planning, the city of Minnetonka continues to be better positioned than many communities to deal with recurring budget pressures and legislative mandates. Nevertheless, challenges exist:

- To meet citizen expectations for both service quality and taxes, and deal with rapidly escalating utility and health insurance costs, projected 2007 budget growth will be reduced by \$300,000 (20 percent).
- New programs for Traffic Management, *ReadyMinnetonka* emergency preparedness, and Natural Resources will be funded through the reallocation of normal budget growth. Energy conservation has a goal of reducing use by ten percent, and other costs will be limited to one-half the rate of inflation.
- City property tax revenue will increase 9.3 percent in 2007, with 6.3 percent dedicated to road revitalization. Revenue for operating and other capital needs will be held to a 3.0 percent increase, well below the growth planned in comparable cities. After tax base adjustments, total city taxes for the average Minnetonka homeowner would increase by an estimated 6.2 percent.

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