

**City Council Study Session Item #1
Meeting of August 31, 2009**

Brief Description: 2010 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 2010 preliminary tax levy, which will be certified on September 14, 2009, as required by state law. This is the maximum amount the city can levy for 2010. When the final budget is adopted in December, the final levy may be less than the preliminary amount, but cannot be greater.

Background

In the wake of the governor's unallotment decisions and the state's worsening fiscal crisis, local governments throughout the state are making difficult decisions about staffing and service levels to absorb the impacts of the ongoing recession, and more notably, fallout over the state's inability to responsibly manage its budget.

Unlike the state, 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 residents and businesses with the quality services they have come to expect, and at a reasonable price. Accordingly, the city of Minnetonka anticipated the state cuts more than a year ago, and has already implemented various measures to reposition itself to ensure its long-term capacity to continue to provide our residents with excellent services.

This initial budget study session outlines the steps already taken by the city to address its budget challenges and describes additional actions that are now underway. While the recent budget adjustments have gone a long way toward addressing the major challenges faced by the city, council direction is requested for key policy issues and for the preliminary 2010 tax levy. Detailed budget requests will be reviewed in November, with the final budget and tax levy adopted in December.

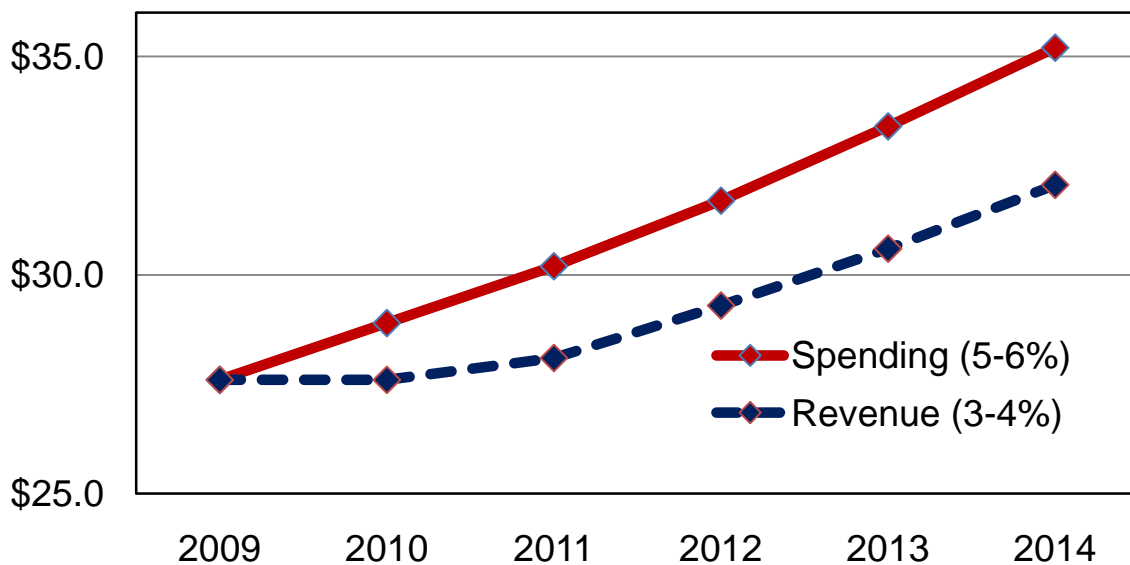
As council knows, the city of Minnetonka always encourages public budget input. In addition to the annual public hearing, residents and businesses will again have an opportunity to provide feedback via the city's website and *Minnetonka Memo*. Comments will be shared with council as budget options are considered.

Budget Challenges

Some city budget challenges are associated with the historic economic downturn that is impacting all residents and businesses. For example, the city expects a \$400,000 decline in investment earnings and at least \$250,000 less in building permit revenue.

The city faces even greater challenges attributable to the state, including the loss of \$236,000 in Market Value Homestead Credit tax relief at the end of last year and \$500,000 each year into the future; and state mandated increases of \$550,000 in pension contributions, which could increase with recent investment market losses.

With only traditional belt-tightening measures, the city would still face a \$1.2 million projected shortfall for 2010. Without long-term actions, this gap in ongoing revenue and ongoing spending would grow to \$3.1 million by 2014. The fundamental problem is, spending is projected to grow by 5% to 6% annually over the next five years, while revenue is only expected to grow by 3% to 4%.



The basic challenge is not just about balancing next year's budget; it's about repositioning the city to ensure its long-term capacity to continue to provide quality services at a reasonable price. To allow time for implementation of permanent budget solutions, last fall the city:

- imposed a hiring freeze,
- reduced employee overtime hours, and
- placed \$525,000 of capital projects on hold.

Repositioning for long-term financial stability

To meet the current and future service needs of the Minnetonka community, various long-term strategies were recently enacted. With the state no longer a reliable partner, the repositioning will make basic city services less vulnerable to unpredictable future state actions, and were intended to meet four objectives:

- (1) achieve long-term budget balance,
- (2) sustain direct core services,
- (3) continue infrastructure investments, and
- (4) moderate property tax growth.

The strategies involved various new ways of doing business: cooperative service agreements with other agencies, productivity investments that help deliver core services more efficiently, and department reorganizations that reposition the city to better serve its constituents, both now and well into the future.

Like any service business, the city's major expenses are personnel related. With the recent reorganizations, seven employees were laid off, half of whom were managers. Seven vacant positions were also eliminated, and with part-time staff reorganizations, the city's *total workforce was reduced by six percent*:

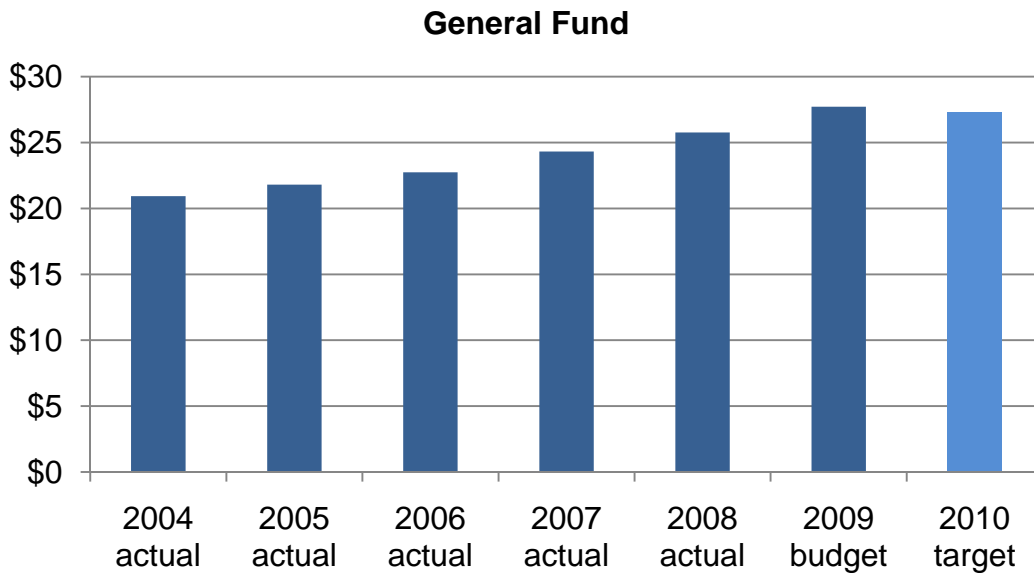
<u>Staffing (FTE's)</u>	<u>2009</u>	<u>2010</u>
Public Safety	94.7	91.2
Streets & Utilities	62.0	60.7
Parks & Environ	15.6	15.1
Recreation	25.4	22.6
Development	28.9	22.1
General Govt	21.0	20.7
Total	<u>247.6</u>	<u>232.4</u>

The city also renegotiated its largest union contract to limit future base wage increases to *one percent annually*, with an allowance for market adjustments, when warranted to remain competitive. This same structure will be used city-wide. While furloughs and wage freezes were considered, these options were ruled out as one-time, arbitrary steps that would introduce major inequities into the city's unique MERIT compensation system, and do little to meet long-term challenges.

This repositioning resulted in significant decreases in the city's 2009 operating budget, with additional savings accruing in 2010. In fact, the recommended 2010 general fund budget target is *two percent lower than the adopted 2009 budget*:

(millions)	2007 Actual	2008 Actual	2009 Budget	2009 Adjusted	2010 Target
Public Safety	\$10.1	\$10.7	\$11.8	\$11.4	\$11.8
Streets & Bldgs	4.9	5.3	5.4	5.2	5.4
Parks & Environ	2.0	2.1	2.3	2.3	2.3
Recreation	2.4	2.5	2.8	2.8	2.7
Development	2.5	2.6	2.7	2.5	2.3
General Govt	2.4	2.6	2.7	2.7	2.8
Subtotal GF	\$24.3	\$25.8	\$27.7	\$26.9	\$27.3

This recommended 2010 budget target means that all economic and state budget challenges, such as the \$500,000 loss in HMVC and \$350,000 fire pension mandate, must be absorbed within a *lower budget* than was adopted for 2009:



Specific actions already taken and currently underway to meet this budget target are outlined for each of the city's service areas, along with the four key issues for council discussion and direction:

- Public Safety (Firefighters Pension Fund)
- Streets & Utilities (169/Bren Interchange)
- Parks & Environment (Emerald Ash Borer)
- Recreation (Youth Facilities)
- Development (Housing Initiatives)
- General Government

Public Safety

Police and fire services represent about 40 percent of the city's general fund budget, and as service operations, most of these expenses are personnel-related. As a result, bringing the city's budget into long-term balance had to proportionately reduce public safety staffing levels, but in a way that minimizes direct impacts to the public we serve. A total of five full-time positions were permanently eliminated in public safety, with selective part-time positions used to supplement staffing.

Reorganizational changes recently implemented. To maintain priority services, the Police Department is reducing and reallocating personnel to better focus on its core functions. In the most significant change, the Hopkins and Minnetonka school districts have elected to reduce the number of school liaison officers they financially support from five to two positions beginning with the Fall 2009 term. With two officers at special District 287, a total of four liaison officers will continue to be provided. Of the three liaison positions no longer funded by the districts, two police officer positions will be permanently reduced through attrition, and one reallocated to patrol. No police officers will be laid off. New technology is also being explored that will allow students, parents and citizens to text school liaison officers with school-related information.

Additionally, when a previous vacancy in Dispatch was filled internally, a police records position was eliminated, and the Legal Department is assisting them by identifying areas for streamlining and cooperation. As one example, the court notification process is being reevaluated to improve records staff efficiency.

The Fire Department command structure was recently reorganized to better reflect the new duty crew model that was implemented in the department over the past year. In the most significant changes, the position of Deputy Fire Chief was eliminated. In addition, equipment maintenance duties were consolidated at Public Works, resulting in the elimination of another full-time position. Part-time employees will be selectively used to support administrative, inspection and educational programs.

As fire operations have become more coordinated and integrated with other area and regional departments, the Fire Department is phasing out its technical rescue specialized training requirements and equipment. No longer considered a core local function, the state-wide team will serve as a resource for the department. As the city phases out this service, technical rescue equipment will be sold and the funds used to purchase a smaller vehicle to be used for duty crew medical responses.

Additional budget actions now underway. Minnetonka is currently exploring with the city of Hopkins the possibility of consolidating the two cities' dispatch services. Along with other independent dispatch operations, the city is also participating in ongoing discussions with Hennepin County about the possibility of using the county's central services. These options will be considered following an independent review of service and budget implications, scheduled to be completed later this fall.

The Police Department is also exploring various administrative changes and equipment alternatives for reducing energy use. Measures already taken include dispatching fewer patrol cars to minor events, taking reports from citizens by telephone for minor incidents, and using smaller and more economical vehicles where appropriate.

The Fire Department is stepping up its public educational efforts to better serve condo and apartment residents, and updating fire prevention materials on the city's web site. The ReadyMinnetonka program is being revised to incorporate electronic emergency notifications through various telecommunications channels.

The Fire Department is also aggressively pursuing cooperative agreements to improve service and increase cost efficiencies. As examples, structure fire response will be consistent with country-wide standards, and cooperative agreements are being explored to standardize personal protective gear acquisition and maintenance.

Various productivity improvements are also underway to improve both efficiency and customer service. For example, the Legal Department will be purging its general files and converting them from paper to electronic records over the next year. The most frequently requested police forms will be added to the city's web page, and electronic methods will be developed to relay time-sensitive information during roll call briefings. Environmental Health is planning new training modules for food service workers.

A comprehensive **public safety plan** will be completed over the next year to evaluate future operational, building and equipment needs to meet changing demographics consistent with the city's recently adopted comprehensive guide plan. The plan is expected to guide future organizational strategies and capital investments over the next two decades, addressing such comprehensive issues as fire station and police substation consolidation and relocation, equipment acquisition and deployment, fire duty crew expansion and refinement, shared police and fire responsibilities, and dispatch priorities and procedures. Funding is being reserved in the 2010 budget to allow initial implementation of any plan priorities following council adoption mid-year.

Firefighters pension fund. As is the case in most Minnesota cities, the pensions provided to Minnetonka's paid-on-call firefighters are an important factor in recruitment and retention. Our firefighters' primary pension is provided through the Minnetonka Fire Relief Association, as authorized by a complex set of state statutes. Minnetonka's association is governed under adopted by-laws and a board of trustees, which includes the city's mayor, fire chief and finance director. The \$9.5 million fund currently covers around 140 beneficiaries, half of whom are active firefighters.

Benefit levels under the retirement plan are adopted by the relief board, but must be approved by council for the city to be legally responsible for funding the plan. In recent years, council has approved modest annual increases, with the exception of this year, when the association did not request an increase in recognition of the current recession.

The city has traditionally financed the fund solely through **state fire aid**, which is derived from an allocation of state taxes paid through fire insurance premiums on Minnetonka properties. This annual allocation has been dropping in recent years from \$400,000 in 2006 to \$250,000 expected for both 2009 and 2010. This precipitous decline is due to a state error in historic revenue collections, the correction of which was phased in from 2007 to 2009. During its recent legislative session, the state considered cutting fire aid further to address their budget deficit, but no action was taken.

While the Minnetonka relief fund has a strong history of being fully funded to cover current and expected future liabilities, the economic crisis has significantly impacted its value, like every other retirement fund in the country. The funding status dropped from 105 percent funded at the beginning of 2008 to 77 percent funded at the beginning of 2009. Compared with most other firefighter relief funds, Minnetonka's funding continues to be reasonable, and is expected to recover as the value of its investments recover.

Unfortunately, **state law mandates** that the city make a substantial contribution to immediately address this paper deficit. While national accounting standards under GASB prescribe pension funds to amortize unfunded liabilities over 30 years, the State of Minnesota requires firefighter relief funds to amortize these liabilities over only ten years. Beginning in 2010, the statutory formula requires the city to contribute an *additional \$348,200 annually*. The specific amount is subject to change with new actuarial analyses required at least biannually.

Although such a sizable payment is wholly unreasonable from a fiduciary standpoint, unless the city levies for the entire \$348,200 contribution in 2010, we will be subject to the loss of our annual state fire aid. This mandate equates to a *1.2 percent increase* in property taxes, and would be outside state levy limits.

To further complicate this issue, the legislature created a new **statewide pension fund** at the behest of numerous smaller and less well funded fire relief associations. Although current law provides that membership in the new statewide fund is voluntary, past history suggests that the statewide fund will likely seek better funded resources to shore-up the lesser funded associations that are expected to join initially.

Consequently, it is likely that all state relief associations managing stand-alone funds will eventually be required to consolidate under this statewide fund. This action would disadvantage the Minnetonka fund, and would also expose our firefighters' pensions to the whims of the state.

The city has always recognized the importance of meeting its pension obligations, and has taken various steps to ensure adequate funding. First, for a number of years, the city has annually funded a **fire pension reserve** in anticipation of one-time needs. By the end of 2008, \$352,000 had accumulated in this reserve. While a significant sum, the amount would only cover one year of the state's ongoing annual mandate.

Second, in recognition of the unsustainable financial exposure associated with the fire pension's defined benefit plan, the city established a second **defined contribution plan** for firefighters paid with their new duty crew shift work. This plan functions like a deferred compensation program, where the city contributes funding to individual firefighters, and the individual firefighters choose how to invest their own funds. Pension funds under a defined contribution structure are insulated from state interference, because they are owned by the individual beneficiaries.

Finally, the city has begun to work with the League of Minnesota Cities to seek **legislation to extend** the required ten-year amortization of unfunded liability to thirty years, the national standard. A longer amortization period would reduce the annual obligation, provide ample time for the value of the fund to recover and reduce the unneeded short-term mandate. A number of cities, including Bloomington, already have special statutes allowing them to amortize their liabilities over twenty years.

In addition to levying the required state contribution, staff thinks it is also advisable to consider additional steps to protect our firefighters' pensions and ensure that the city's investments in those pensions do not end up wasted in a pool vulnerable to takeover by the state. To that end, a **collaborative task force** is planned, consisting of members of the relief board, fire chief, city attorney, finance director, and both tenured and new firefighters, to work together with an expert consultant to develop options for keeping the pensions for our firefighters safe.

As one possibility, annuities might be purchased for current pensioners to guarantee their future payments, and the remaining and future obligations transitioned to a defined contribution plan under the control of current and future members. The city could also consider using the \$352,000 fire relief reserve as a resource to facilitate any transition. Since state laws related to firefighter pensions are complex, special legislation and interpretation would likely be required to ensure legal compliance.

Discussion question: Does council support the suggested collaborative approach to address the future of our firefighters' pensions?

Streets & Utilities

Much of the funding allocated to streets and utilities are capital expenditures, and those projects were reprioritized in the city's 2010-14 CIP budget to continue the necessary investments in essential infrastructure within available resources. The most noteworthy budget change involved expansion of the thin-overlay program for deteriorating streets with sound underlying support bases.

Reorganizational changes recently implemented. To more efficiently manage operating costs, Public Works Department operations were recently reorganized to consolidate functions, reallocate workloads and streamline operations. With fire vehicle maintenance responsibilities assumed by the department, these operations were consolidated under the Utilities Division, and the position of Fleet Services Manager was eliminated. This merger was possible as a result of the diverse background of existing utility and fleet maintenance personnel.

Following a retirement from the Engineering Department, existing responsibilities were reassigned, with a net reduction of one full time position. Most notably, special assessment duties are being transferred to the Finance Department.

Additional budget actions now underway. Energy costs continue to outpace other operating expenses, and have an especially costly impact upon two of the community's highest priorities – public safety and public works. Although the city adopted an aggressive energy conservation plan, savings in usage have not been able to completely offset the rise in fuel and natural gas rates.

Public Works will continue its efforts to reduce energy use through a joint purchase agreement for motor fuels with other government jurisdictions and by experimenting with the use of bio-diesel at higher than normal concentrations in city fleet vehicles. Energy saving investments made possible by federal recovery funds will allow cost saving measures to accelerate.

Staff is developing a comprehensive right-of-way ordinance to ensure better cost recovery of the additional costs of maintenance caused by uncoordinated private construction that impacts the condition of city road and utility infrastructure. The new ordinance will also streamline right-of-way permitting requirements.

Various productivity improvements are underway to improve both efficiency and customer service. For example, all storm sewer facility and street lights are being entered into the city's auto tracking GPS system, along with other previously entered geophysical data. Together with previous conversions of trail maps and snow plow routes, these updates to the city's geographical information system (GIS) database will facilitate maintenance of the city's infrastructure, and eventually lead to greater online and user friendly citizen information access.

Additionally, vehicle replacement guidelines are being revamped, a preventative building and equipment maintenance system is being developed, and an automated vehicle location (AVL) system for snow plowing is being investigated to track scheduling and progress. Electrical peak shaving options are also being investigated to reduce water system pumping costs.

TH169/Bren Road interchange. Council previously discussed a possible financing strategy for expansion of the 169/Bren interchange at its May 11, 2009 CIP study session. The most recent financing plan anticipates approximately \$8 million in state grants, with the remaining \$10 million to be funded locally.

Similar to the method used by the city for the past two decades to address commercial development along the I-394 corridor, a **trip generation overlay district** would be used to pay for the city's portion of 169/Bren costs. This financing strategy reflects the goal that the new commercial development most directly benefiting from the infrastructure improvements should pay its own way.

With the existing interchange close to reaching its full capacity, future development in the Opus Business Park would be limited based on an allocated number of peak hour trips generated by the new development; this approach is used in the I-394 ordinance. These allocations would be in direct relation to the maximum building square footage allowed for each property under current zoning, and would grandfather in properties that have already exceeded that capacity. Those properties that have used less than their allocation would be allowed to develop up to their full allocation.

Future development, beyond these allocated trips, could only occur if there is additional capacity at the interchange, which would be proportionately funded by the development requiring the additional capacity. The amount paid for each additional trip would be calculated by dividing the city's share of total costs (estimated at \$10 million) by the number of new trips that would be available. Per trip charges would be collected when developments are approved, and the charge would be annually adjusted for inflation.

Since trip generation fees would come in over time, and the city's share would need to be available at the time of construction, staff is investigating ways to front-end the costs without incurring borrowing costs. One possibility is the use of tax abatements for repayment of a \$5 million low interest state revolving loan. The remaining \$5 million might be committed by United Health Group through a negotiated agreement for their second phase. Since this amount would likely be greater than their trip generation fee, UHG could be repaid as additional developments occur and pay into the fund.

Similar to TIF, **tax abatement** is a financing tool that takes the increase in the property value associated with a new development or redevelopment and diverts the city's tax receipts from that new value into a fund to finance improvements required for the development to proceed. As applied in this case, homeowners' taxes would be the same with or without the new commercial development made possible by the interchange, so growth would pay its own way.

Similarly, commercial properties would not be required to pay twice, like with a transportation improvement district, since they would be paying the same total taxes, with or without the interchange. With tax abatements, the city would be electing to divert a portion of the normal taxes, the new increment, to front-end interchange construction. This advance funding would eventually need to be paid back through trip generation fees to insure that growth pays its own way, but fees would not be paid until new development generated more trips than allocated under current zoning.

The normal property taxes paid by commercial properties would continue to fund ongoing road maintenance, as well as their ability to expand up to their zoned capacity. Anything over and above that capacity, which would be made possible by the new interchange, would be funded by the trip generation fee. This approach is equitable, since neither residents nor those commercial properties that do not need any additional capacity are required to subsidize the expansion. Similarly, this approach does not require one developer to fund an improvement that benefits many property owners.

Discussion question: Does council concur with the proposed interchange financing strategy?

Parks & Environment

Various 2010-14 CIP adjustments were made to reprioritize park projects.

Reorganizational changes recently implemented. The position of Building Maintenance Manager was eliminated when a vacancy occurred, with duties assumed by the newly reorganized Parks, Buildings & Trails Division. Workloads were also redistributed to balance shifting service demands in the Natural Resources Division.

Additional budget actions now underway. Parks and Trails activities continue to focus on completion of the remaining park renewal projects, and the new Minnetonka Mills Park. An ADA accessibility review of parks and trails is planned, and results of the community input process for trails will be presented to council next year to assist in future trail project planning.

Natural Resources Division activities continue to emphasize educational programs, with plans to use public service announcements on the free time slots allocated on electronic billboards. A new community environmental event is being planned to alternate with the EcoFair, and promotion of a rain barrel sale recently took place.

Future budget challenges include the major decrease in Environmental Fund revenues resulting from a soft recyclable sales market, which has implications for funding various city programs like curbside recycling, brush and special materials drop-offs. Average monthly receipts of about \$40,000 over the past two years have largely disappeared, and while other resources are adequate to fund operating expenses, adjustments will need to be phased in to keep ongoing revenues and expenditures in alignment.

Emerald ash borer. The emerald ash borer (EAB) is an aggressive, devastating insect borer that attacks and kills ash trees. Emerald ash borer is different than Dutch elm disease because EAB is a much more aggressive insect than the elm bark beetle. Additionally, effective chemical treatment against the insect with less toxic chemical sanitation of ash wood does not exist for EAB as it does for elm trees.

While the insect has not yet been confirmed in Minnetonka, EAB was discovered in St. Paul this past spring, and was photographed by a resident on the Minnetonka border. When it becomes established in our community, as it has throughout other Midwestern states, all of the estimated 120,000 ash trees in the city will die. Because ash trees comprise about 15 to 20 percent of the city's forest, and their deaths will become a public safety issue, the 2010 budget will include initial funding for a multi-year management plan to address the imminent infestation, focusing on:

- public education,
- early detection and treatment of priority ash trees on public property,
- removal of marginal trees on public property and rights-of-way, and
- reforestation and care for trees on public land.

The 2010 budget will include \$45,000 to fund an additional seasonal tree inspector, public education campaign, and initial expenses associated with public lands. Because long term costs for ash tree removal and replacement could reach \$1.5 to \$2 million over the next twenty years, future budgets will need to expand these initial funding levels. Over the next year, the city will also need to address its policy for boulevard trees, which are owned by individual property owners. Strategies under consideration include dedication of a future special levy to fund such programs as:

- removal and replacement of ash trees on public lands,
- special assessments to help property owners finance private tree removal,
- expansion of the city's popular tree sale program to encourage reforestation,
- 50:50 cost-share for boulevard trees, with a cap on the city's contribution, and
- underwriting nonprofits' efforts to subsidize lower income homeowners.

Recreation

The Recreation Services Department continues to implement its strategic plan developed with assistance from the University of St. Thomas graduate business program. Staff is developing programs for residents that currently do not participate in city recreation programs, more effectively marketing programs to targeted users, and tracking the success of these efforts on a regular basis.

Reorganizational changes recently implemented. Consistent with Recreation Services' strategic plan, which will reposition the department to better serve Minnetonka's changing demographics, all programming activities were recently consolidated into a single division. Merging and integrating all program planning and operations for adult, youth and senior activities allows for better and more effective coordination and delivery of these services, and at a lower cost.

More important, the reorganization will help Recreation Services effectively meet the expanding and changing programming needs of the Minnetonka community, not only for today, but well into the future. With the reduction from five divisions to four, and termination of various contractual services, the Contractual Services Manager position was eliminated.

Additional budget actions now underway. The strategic plan calls for development of new self-supporting programs to meet the needs of residents. Initial results of new benchmark tracking indicates strong participation in the city's recreation programs, especially for younger age groups:

<u>Age Group</u>	<u>Resident Participation</u>
0-19	39%
20-54	28%
55+	14%
Total	28%

Examples of recent self-funded programs include Kid's Corner, the new summer day camp program, and the new farmer's market offered in conjunction with the Music in the Park series. Development of the HATS program (Hopkins Area Teen Spaces) with other area service providers represents a unique approach to coordinating access to multiple program opportunities for area youth via an on-line calendaring and participation card system. Future expansion into other areas and age groups is being considered.

Originally developed as a joint project with the Minnetonka School District, the city's long-term obligation to support the ArtsCenter on 7 is being bought out by the district as school programming and use of the facility grows. District music, theater and other school events now account for about 90 percent of all center usage.

Athletic league, field and staff scheduling are being upgraded with technology enhancements to improve both internal efficiency and service to the public. An improved field reservations process is being developed based on a field use fee schedule currently under consideration by the park board, and a comprehensive analysis of adult sports programs is being conducted to improve efficiencies.

Youth Facilities. Both Recreation's strategic plan and the city's comprehensive plan call for increased efforts to serve the youth of our community, and council has requested options to meet that goal. In response, staff is recommending two modifications to the already budgeted Williston Center upgrades that would add a youth component to the existing building.

The addition of these facilities, which would build on the success of newly created Kid's Corner activity space, would create quality spaces for both recreational and cognitive programming opportunities. The two additions to the already scheduled CIP project would cost-effectively enhance recreational offerings available to children in the 2 to 12 age range by leveraging investments in the existing building and utilizing existing staffing, rather than developing a new operation:

- **Water play area.** The approved Williston Center renovation project is scheduled for 2010 and 2011, and includes various improvements designed to upgrade existing facilities, the most significant of which involves replacement of the pool liner and mechanical equipment. With this major reconstruction underway, the pool area could very cost-effectively incorporate a new zero depth entry water play area and family changing rooms adjacent to the existing facility. An outdoor example from Chaska is attached. Such a modification would add 1,800 sq. ft. to the south of the existing pool facility at a cost of \$575,000 for the addition and indoor equipment.
- **Indoor play facility.** Staff also recommends the addition of an indoor play facility to Williston that would be created by slightly expanding and rearranging the batting cage area. The reconfigured facility would retain three of the four batting cages, and provide a 45' x 60' play area. As illustrated in the attached example, several metro area cities such as Edina, Shoreview and New Brighton provide indoor play facilities intended for children ages 2 to 12, and are designed to accommodate at least 200 kids. The facilities are operated as enterprises, with annual revenues ranging from \$100,000 to \$500,000. Staff estimates that such a facility, including the play equipment, could be developed at a cost of \$450,000.

The appropriate source of funding for the recommended \$1,025,000 in youth facility improvements is the Community Investment Fund, which currently has a \$2.3 million uncommitted balance over the next five years, and an adequate cash budget to accommodate coordination of construction with the already scheduled Williston Center improvements. Staff estimates that the improvements would increase annual revenues by at least \$120,000 through increased daily and family memberships, resulting in a payback on the city's investment of about eight years.

Discussion question: Is council supportive of the recommended modifications to the Williston renovation to provide youth facilities?

Chaska Zero Depth Entry Water Play Area

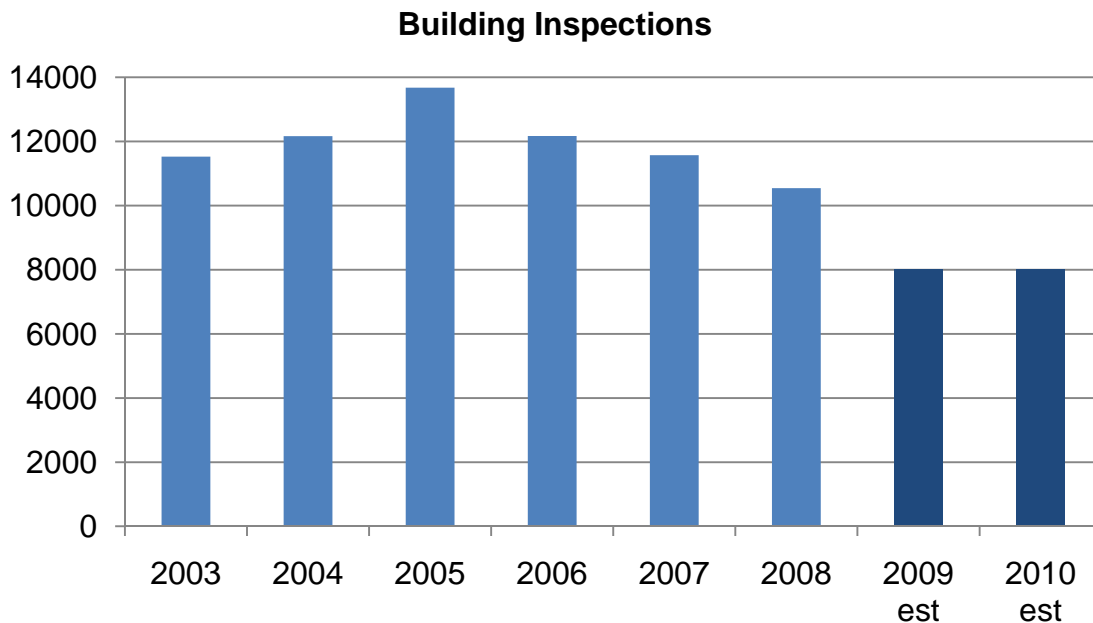


Shoreview Indoor Play Facility



Development

In response to the dramatic downturn in construction activity, Community Development staffing was restructured to match the reduced demand. The number of permits and inspections fell to an eight-year low in 2008, and 2009 activity is even slower:



Reorganizational changes recently implemented. With the significant drop in permit revenue, three positions were eliminated in the Building Inspections Division: plan reviewer, electrical inspector and permit technician. When construction activity eventually resumes, the use of flexible, shared staffing with neighboring communities is being considered to meet future demands.

Additionally, the position of Community Development Coordinator was previously eliminated when the incumbent filled a vacancy in the Planning Division, and was not replaced. A code enforcement position, budgeted in 2006, was never filled, and a part-time administrative assistant assumed another position in the Engineering Department. In total, five and one-half full time positions in the Community Development Department were permanently eliminated.

Additional budget actions now underway. The Community Development Department is creating various online tools for developers and homeowners to access and apply for permits, including an interactive program for homeowners to learn about the permit and inspection process. As examples, the e-permit system is being expanded to include permits which require added documentation, combined permits for homeowner projects are being considered, and the feasibility of requiring electronic plans for commercial projects is being investigated to save staff time, resources and storage space.

Plans are also being developed to better coordinate the duties of frontline Planning, Engineering and Community Development employees to seamlessly staff our public service desks. This sharing and reassignment of duties will both save city resources and improve service to the public.

Village Center Engagement Process. Reinforcing the development of village centers in Minnetonka is a key element of the city’s recently adopted comprehensive plan. In response, council requested that a process be developed for engaging the public in village center planning, similar to that used for the Mills area. With modified versions of this previous comprehensive effort, costs would average \$35,000 to \$40,000 per village center, and the EDA recommends that two such studies be undertaken in 2010.

The following priorities are recommended based on development interest, public infrastructure impacts, age of existing development, and areas where recent private reinvestment is deficient:

	Village Center	Type of Village Center	Year
1	SH 7/CR 101	Community Village	2010
2	Shady Oak/Excelsior	Neighborhood Village	2010
3	Ridgedale	Regional Area	2011
4	Glen Lake	Community Village	2012
5	Minnetonka Blvd/TH 169	Neighborhood Village	2013
6	Cedar Lake/Hopkins XRd	Neighborhood Village	2013
7	Baker Road/Excelsior	Special Purpose Village	2014
8	Minnetonka Blvd/CR 101	Community Village	2014
9	Highway 7/Hopkins XRd	Neighborhood Village	2015
10	Shady Oak/Bren Road	Neighborhood Village	2015
11	Highwood Drive	Special Purpose Village	2016
Done	Minnetonka Mills	Special Purpose Village	
Done	Opus (Station Area)	Regional Area	

Of the top three priorities, the *SH 7/CR 101* village is being pressured by two main development factors: Kmart’s closing and private interest in redevelopment of the Park Nicollet site and other parcels in that block. The comprehensive plan indicated that a master planning process should address cohesive redevelopment, connections to natural resources, and transit opportunities.

The *Shady Oak/Excelsior* village area is receiving some development interest in light of prospective light rail investments, and land uses in this area are becoming obsolete. *Ridgedale* has been interested in redevelopment of the center for a number of years, and the full scale redevelopment of this area would be complex, involving new mixed uses, high density residential and renewed commercial property.

Housing Initiatives. At its August 3, 2009 meeting, Council discussed the results of the Opportunity City Pilot Program, the goals of which were to identify tools and strategies that would support a full range of housing choices in Minnetonka, especially in light of the changing demographics of the community. Strategies were suggested to address the low turnover associated with aging in place, increase opportunities for younger homebuyers, provide resources for home maintenance, and the use of land use controls and resident engagement strategies. Three initiatives were considered by the EDA:

- **Homebuyer Assistance Program.** Challenges faced by younger home buyers in the community include both the available housing stock and current weak credit market. Minnetonka has approximately 5,000 homes valued at \$300,000 or less that are at least 30 years old. This program would target buyers who are at 100% -115% of Area Median Income (AMI), or can afford up to \$300,000 for a home. The recommended 30-year, no interest, deferred loan program would allow buyers to borrow money for down payment assistance and for closing costs. A similar program in Plymouth allows \$5,000 for closing costs plus 50% of the down payment (up to \$5,000), for a total of \$10,000 per purchase. For example, an allocation of \$100,000 would fund ten home loans. Repayment of the loan would be required if the property sold prior to the 30-year term.
- **Home Renovation Program.** A related challenge involves the lack of reinvestment in homes as residents age in place. The city could institute a program similar to the existing rehab program, but structure it to complement the federal community development block grant (CDBG) program. The challenge with CDBG funding involves the maximum qualifying household income of 80% of AMI, although the city has historically used it for 50% of AMI. The city would continue to promote the CDBG program, with a goal of assisting 10 homes with a \$20,000 investment per home. Use of local Housing and Redevelopment Authority (HRA) funds would allow more flexibility to include households up to 115% AMI, which equates to 82% of all Minnetonka households. The program could be geared toward maintenance, green-related investments and mechanical improvements. Low interest (3%) loans might be offered, up to \$7,500 with a five year term. For example, an allocation of \$75,000 would renovate ten homes. With a revolving loan structure, the initial investment could become self-sustaining after five years.
- **Senior Regeneration Program.** Aging in place has resulted in low household turnover rates in Minnetonka, and made it difficult for younger families to move into the community. A senior regeneration program would help attract younger families by encouraging some turnover, preserving housing and making it viable for future generations. The program would involve purchasing a single-family home from a willing senior seller, helping the senior find appropriate independent or assisted living housing, renovating and updating the home as necessary, and selling the home to a household at 115% AMI. Up to \$30,000 would be allocated for renovation and resale of each unit. Funds to initially purchase the home would need to be committed up front from another source, such as the Livable Communities fund, which could then be repaid upon sale of the house to the new buyers.

2010 HRA levy. Last year, council approved a 2009 HRA levy of \$100,000 for Homes within Reach, with an additional \$150,000 provided to WHAHLT from the Livable Communities Fund. On August 17, 2009 the EDA recommended council consideration of a \$175,000 HRA levy for 2010, which represents a \$75,000 increase over the current levy, to be used for the following purposes:

- **Village Center Engagement Process** (\$75,000). This recommended funding would accomplish the two highest priority village studies of SH 7/CR 101 and Shady Oak/Excelsior during 2010.
- **Homebuyer Assistance & Home Renovation Programs** (\$100,000). The recommended 2010 funding would initiate these two programs. If split equally, the funding would underwrite five home loans and six renovations.
- **WHAHLT.** EDA recommends that funding for Homes Within Reach should come entirely from the Livable Communities Fund, and not the HRA levy.

Discussion question: Does council support the EDA's recommended 2010 HRA levy and allocations?

General Government

Administrative overhead ratios remain among the lowest of comparable cities, and additional efficiencies are being achieved.

Reorganizational changes recently implemented. After considering a possible transfer to Hennepin County, the decision was made to retain the Assessing Division of the Finance Department at the city, but to undertake an internal reorganization to achieve the same savings, while retaining the quality assessing services our community has come to expect. Following two scheduled retirements, only one of the two vacant positions will be replaced. In Administrative Services, staff support hours were reduced.

Additional budget actions now underway. Various other efficiency measures are being pursued through changes in citywide administrative policies and practices. For example, on-line benefits open enrollment will directly benefit employees and greatly facilitate the year-end process.

Despite increasing complexity and growing usage, IT support staffing remains at the same level. Fiber connectivity will continue to leverage opportunities presented by other public and private installations, and more cost-effective and reliable wireless technologies are being pursued as appropriate.

The office equipment replacement policy is being revisited with the objective of extending the service lives of computers and copiers. As the most significant step, approximately 230 of the city's 270 computers will move from a three-year replacement schedule to a four-year schedule.

Planning commissioners are being transitioned to a paperless system, like that already used by council members. This capital investment will greatly facilitate packet preparation, avoid the need for a copier replacement and reduce staff delivery costs.

In Finance, the number of payment checks is being reduced as the city converts more disbursements to electronic funds transfers. Assessing is researching a digital imaging system, and is investigating the feasibility of digitizing scanned property files. The city's utility billing system is being enhanced, with additional features like on-line billing and recurring credit card charging offered to improve efficiency and customer service.

A new customer relationship management system (GovQA) will replace the antiquated Request Partners system, and is designed to better use resident-friendly, web-based technologies. This reasonable investment is expected to significantly improve resident access to city information resources.

Possible election management collaborations are being explored with other cities. The city is also participating in a state-wide pilot program exploring electronic poll book technologies that could save money and improve the polling place process.

Preliminary 2009 Property Tax Levy

The most significant factor for this and future years involves the inability of the state to responsibly manage its budget, with the resulting uncertainties for local governments. Most estimates indicate that the state still faces a \$6 to \$7 billion shortfall, even after the many recent cuts and unallotments. This means cities remain highly vulnerable to even more cuts and mandates for years to come.

Although Minnetonka no longer receives any general local government aid, the state continues to use various back door mechanisms that require cities to assume greater financial burdens. Most significantly, the two state mandates of city-funded MVHC tax relief (\$500,000 annually), and fire relief pension funding (\$350,000 annually), would require a *three percent property tax increase before the city even began to address its other economic challenges.*

Reflecting the city of Minnetonka's long-standing tradition of responsibly managing for the long-term, and recognizing the impact of the economic downturn on community residents and businesses, staff recommends that the city's 2010 operating budget be held to *two percent less than the adopted 2009 budget*. This significant challenge will be met with the major restructuring savings put in place earlier this year.

Although general fund spending will decline for 2010, substantially lower permit fees are expected next year; a decrease of more than 15 percent. With all other revenue sources generally stable, the decline in permit revenue means that property taxes would only increase by a modest 0.7 percent to fund all city operations in 2010.

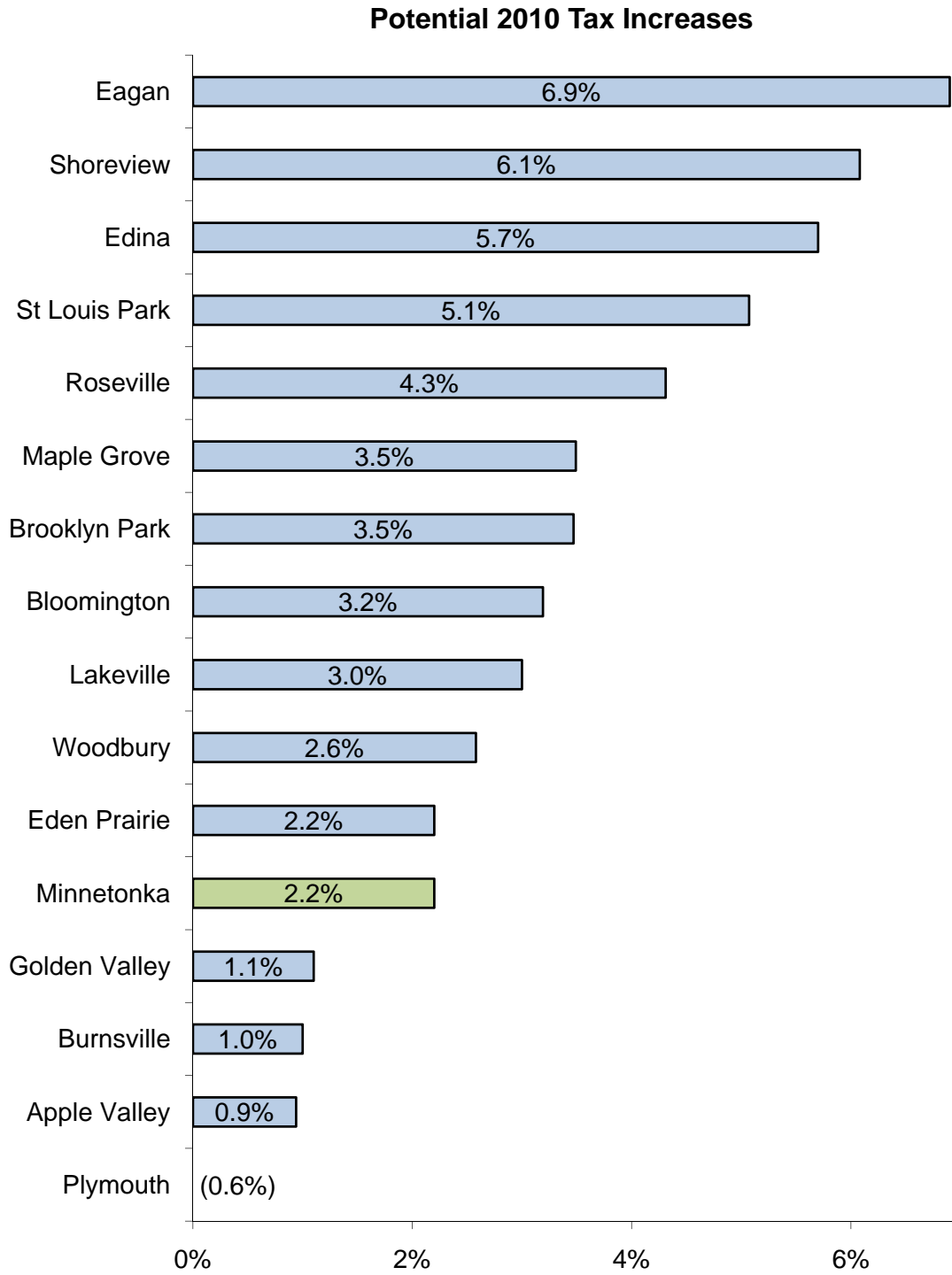
Staff recommends that a preliminary total city property tax levy of \$29,394,000 be certified for 2010. This levy includes a 0.7 percent base tax increase (including both operating funds and the previously adopted CIP budget), plus an additional \$348,200 (1.2 percent increase) to cover the state-mandated fire pension relief payment. These levies would represent a combined 1.9 percent increase for 2010:

(thousands)	2009	2010	Change
City Property Taxes	\$28,835	\$29,046	0.7%
State Fire Mandate		348	1.2%
Total Preliminary Levy	\$28,835	\$29,394	1.9%
HRA Levy	\$100	\$175	0.3%

The recommended preliminary levy targets would continue the city's tradition of modest tax increases for basic services, and would translate into an estimated two percent increase (\$19) for the average Minnetonka homeowner of a \$310,000 home. Businesses in the community would see a similar two percent increase; a commercial property worth one million dollars would pay \$73 more in 2010.

EDA's recommended \$75,000 increase in the current \$100,000 HRA levy would increase taxes by an additional 0.3 percent. Should council wish to consider any more funding for the recommended new housing initiatives, each additional \$30,000 would require an additional \$1 tax increase for the average homeowner.

As has been the case in past years, preliminary information indicates that the city's proposed levy increase, *including* the recommended HRA levy increase, is still among the lowest of the total tax increases being considered by comparable cities:



Certifying the recommended total amount of preliminary levies preserves future flexibility. Should council subsequently decide to adopt lower or only portions of these preliminary levies, the total levy can always be reduced in December when the 2010 budget is adopted.

Discussion questions: Does council concur that \$29,394,000 (1.9 percent increase) should be certified as the city's preliminary levy for 2010? Does council also agree with EDA's recommendation that \$175,000 (additional 0.3 percent) should be certified as the preliminary HRA levy for 2010?

Summary

Responsible long-term financial planning has continued to position the city of Minnetonka to accommodate recurring and increasingly uncertain budget pressures. The major restructuring which took place earlier this year will result in a 2010 budget that is *two percent lower* than the adopted 2009 budget.

Despite substantial economic pressures and state mandates, the recommended preliminary property tax levy is only 0.7 percent higher than last year for all city operations and capital investments. An additional 1.2 percent increase is necessary to cover the unnecessary state mandate for fire pensions, resulting in a total 2010 city tax increase of 1.9 percent. EDA's recommended HRA levy would add another 0.3 percent.

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 2010 and well into the future.

Originated by:

John Gunyou, City Manager
Geraldyn Barone, Assistant City Manager
Merrill King, Finance Director

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Council Present: Dick Allendorf, Amber Greves, James Hiller, Tony Wagner, and Mayor Terry Schneider. Bob Ellingson was excused.

Staff: John Gunyou, GERALYN Barone, Merrill King, Julie Wischnack, Lee Gustafson, Desyl Peterson, and David Maeda

1. Tax Increment Financing

Gunyou said traditionally the city has only used TIF related to affordable housing with the Glen Lake development being the notable exception.

Wagner said the purpose of the Glen Lake development was to address the dilapidated buildings on the south side. Upcoming developments will be a mix of commercial, retail, and residential and that would present some challenges. He cited Ridgedale as an area that would require TIF dollars for the infrastructure. He would support the use of TIF for projects that support the guide plan.

Hiller said priorities have been set in the guide plan with primarily a cohesive development getting larger sections into a cohesive arrangement. He would support using TIF to accomplish this purpose and not just for the city's housing goals.

Wiersum said the less expensive development in the city has already been done. The bigger projects would require more money to accomplish so he would support expanding the use of TIF. He supports the idea of tying the use to the comprehensive plan and to some of the city's other objectives beyond affordable housing. He suggested the city getting more from a developer than it normally would in a TIF supported project. There might be some aspects the city could ask for such as the design or cohesiveness with the neighborhood that would be in the best interests of the city.

Allendorf said he didn't know how the proposed policies gave direction to the staff other than the council agreed that it wanted to open up the use of TIF for things other than affordable housing. Gunyou said the idea of tying the use to the comprehensive plan was helpful. Allendorf said tying TIF use to the village center concept would tie it to all the areas that would likely be major areas of redevelopment.

Greves said tying TIF to the comprehensive plan would give direction of how it would be used as well as broadening its use.

Wiersum said there were key priorities in the comprehensive plan that would be focused on including the village areas and the issues of walkability and connections. If the city could identify specific objectives in the comprehensive plan and specify those in the policy as objectives that would provide more

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favorable consideration for the use of TIF, that would be the type of thing that would inform the discussion and be helpful.

Wagner said the city has historically taken the stance of being reactive when a development comes forward. He asked if the proposed changes to the policy push the city to be more proactive. It might open up the council to more criticism as the public is engaged in the forward design of an area.

Schneider said if the council could agree on what it wanted an area like the County Road 101 and Minnetonka Boulevard area to look like in 20 years, then it could tell developers reaching the criteria that the city would designate a certain level of assistance. He said the policy needed some parameters because the guide plan was written in a way that allows people to interpret it differently. He identified three key areas: the village centers, Ridgedale, and light rail that would need to be treated differently. He said it would be helpful to have narratives that state what things in a specific area could be considered as an important priority for the consideration of TIF. One area that Schneider said he had reservations about was the I394 corridor, but the area needed to be on the table for discussion. Wagner asked why the city wouldn't want to consider TIF for that area given the money would be taken out of the fiscal disparities program. Schneider said the city would need to identify what the restrictions would be. Many of them are housing related and the city would have to prioritize its options. Gunyou noted the city would need legislative authority for the changes.

Allendorf said he has advocated for the city to come up with developments that it wants and pre-planning them similarly to what ultimately occurred in Glen Lake with Presbyterian Homes. There was no developer but the council indicated under specific circumstances they would like the area to be developed. If this could be done around the major nodes and the criteria made known to the development community the city could say it would be willing to look at financial assistance for the development. Schneider said that approach made sense. Most cities take TIF money to buy land and do the upfront things before doing an RFP. Wagner said if a piece of property comes up for sale that is part of the city's vision, the EDA could consider using TIF to purchase the property. Wiersum agreed by just being reactive, the city does not get things that are as good or are smaller or less cohesive as they could be. Being more proactive would benefit all and TIF is a tool that could make that happen.

Schneider said one area that being proactive was important was light rail. A vision is needed in order to guide the activities. For the Ridgedale area, a developer and the market would determine what happens. The focus for the village centers would be keeping the overall area healthy. It would be risky to buy properties to try to redevelop in the mini-markets. Allendorf said he disagreed slightly with Schneider on the Ridgedale area in terms of planning. Perhaps what should be done for that area is to define what the city would be willing to do for a

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developer if the developer takes the city's model and proposes it. He said in areas like Ridgedale, it was unlikely there would be a lot of developers interested without incentives.

Hiller said he agreed with Schneider about being proactive in regards to the planning related to light rail. Wiersum said light rail would draw development and if the city doesn't have a vision for what it wants, and a tool to make the development look the way the city wants, development will occur and the city may not like what it gets.

Abatement

Gunyou said the immediate application staff saw for potentially using abatement was the Bren Road interchange. Staff is looking at abatement as a mechanism to pay back a state loan. Funds would be used primarily from the United Health Group project. The project would meet the "but for" test in that UHG cannot do their second phase without the interchange. The city's financial consultants are looking at the option and the issue would be brought back to the council.

Schneider said one of the drawbacks of abatement is that it precludes the use of TIF. Gunyou said the use of TIF was much more restricted in terms of when and where it can be used. He said staff was proposing using abatement for areas that would not qualify for the use of TIF.

Wagner noted currently the city provides support to WHATL through the EDA levy. He asked if tax abatement could be used to purchase homes over a five year period if a homeowner wants to sell to the city. This could address the issue of seniors being taxed out of their own homes. Gunyou said the law allows for a broad use of abatement but staff would have to look into the answer to Wagner's scenario. Schneider noted the city could only abate the city's portion of the property taxes and so the amount abated might not address the issue Wagner was trying to address.

TIF District Decertification

Community Development Director Julie Wischnack said the city's TIF consultants indicated the city had a September 14 deadline to act on the housing district. Gunyou noted the action involved the Beacon Hill district in the Glen Lake area. Traditionally the city has decertified a district as soon as the original plan was paid off. In this case it might make sense to extend the district because of the uncertainty of other future projects in the area.

Allendorf said if the district was decertified the taxes would go to the general fund and the overall tax for residents would go down. He asked where the money would go if the district is not decertified and the money is not spent on other

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projects in the area. Gunyou said the money would also go back to the general fund. If there are any funds left in the account when the district is decertified it would go back to the county and be redistributed to the appropriate taxing jurisdictions. Allendorf noted that if the district was decertified and the decision was made to help finance the St. Therese project, the money would have to come out of the general fund.

Schneider noted the money being reserved for potential use in the district is at least two thirds from the other taxing jurisdictions so that is an incentive to continue the district. He said he has always been conservative as far as decertifying districts as soon as the development was paid off but many other municipalities do not take that approach.

Wagner said he would support continuing the district. It would be a plus if the right project comes along in the area.

Wiersum said he was in favor of retaining the financial flexibility because that was good financial management.

Gunyou noted the district could be decertified at any time.

Gunyou said the Boulevard Gardens Redevelopment District was a very restrictive type TIF district. Unlike the Beacon Hill district, the TIF from this district could only be used to build a Minnetonka Heights type or deeply subsidized housing projects. The district runs through 2012, so the council would have a year to decide whether or not to decertify. Another option might be to do a partial decertification.

Wagner asked the funds could be used for another qualifying project developed outside the project area. Gunyou said because of the legal ability to pool funds from similar districts, the funds could be used anywhere in the city, but only on the deeply subsidized residential projects authorized for such districts. Schneider said he would like more information about what projects would qualify for use of the pooled funds. Wischnack noted 35 percent was the allowed pooling amount for the city.

Allendorf said if the city faces a situation in the next few years of having to possibly raise taxes, the partial decertification option would provide flexibility to deal with budget issues. Gunyou noted that if the council decided to increase the HRA levy in the future, decertification could help offset the increased levy amount.

Greves asked what limitations there would be in doing a partial decertification. Gunyou said there would be none.

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Wiersum said there was no need to decertify right now and keeping the district would provide financial flexibility.

Schneider said his suggestion was not to make the decision immediately but spend time becoming more educated on the available options.

Hiller questioned the purpose of a statement in the policy that reads, “no other development would occur on the relevant site without tax increment assistance that could create a larger market value increase than the increase expected from the proposed development.” As an example he cited the option of a bus depot on County Road 101. Gunyou said conceivably there could be something that would generate more value that the city may not want to have. He said it was a good point. The language in the policy was pulled from a League of Minnesota Cities document.

Schneider suggested one other change to the language in the policy. In the section about costs eligible for TIF assistance the sentence “The types of project costs that are eligible for tax increment financing are as follows...” he suggested changing to, “The types of project costs that are generally eligible for tax increment financing are as follows...” Since the first sentence of the provision refers back to what state statute allows, Schneider said he was concerned about limiting the city’s options should the statute be changed.

Schneider also suggested clarifying the language allowing the community development director discretion on what requests are referred to the EDA.

2. CIF policy

Gunyou said traditionally the way the fund has been used is for projects that have some type of city-wide benefit that would not likely occur without the funds being available and without access to alternative funding.

Hiller said he was hesitant to use the fund for public safety purposes because taxpayers understand the need for public safety and often don’t mind the city raising taxes for that purpose. Similarly he was concerned about using the fund for trails and sidewalks because the revenue would not be sufficient to sustain what was needed. The two proposed uses he could support would be for parks and recreation facilities or for redevelopment.

Greves agreed with Hiller about using the fund for public safety purposes. She said her priorities would be to use the fund for recreational facilities followed by trails and sidewalks. She would like to support using the fund for redevelopment but the fund has been used for things that do not have alternative funding available. There are other funding mechanisms for redevelopment. She said she was open to discussing that option further however. She said during her time on